NEW ISSUES
FULL BOOK-ENTRY ONLY **RATINGS: See "Ratings" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series EE Bonds and the Series EF Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series EE Bonds and the Series EF Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is of the opinion that the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel further observes that interest on the Series EG Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$444,000,000
General Obligation Bonds of 2012, Series EE

$396,990,000
General Obligation Refunding Bonds of 2012, Series EF

$26,000,000
Taxable General Obligation Bonds of 2012, Series EG

(Base CUSIP: 419791)

Dated: Date of Delivery **Due:** As shown on inside cover

The General Obligation Bonds of 2012, Series EE, the General Obligation Refunding Bonds of 2012, Series EF, and the Taxable General Obligation Bonds of 2012, Series EG (individually, the "Series EE Bonds", the "Series EF Bonds", and the "Series EG Bonds", collectively, the "Bonds"), will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein. The Bonds of each series bear interest payable at the rates set forth on the inside cover hereof on May 1 and November 1 of each year, commencing May 1, 2013.

The Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein.

The Series EE Bonds and the Series EG are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands Settlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, senior housing facilities, public libraries and parks and for other public purposes. The Series EF Bonds (the "Refunding Bonds") are being issued for the purpose of refunding certain outstanding general obligation bonds of the State previously issued for such purposes. See "AUTHORITY AND PURPOSE" and "PLAN OF REFUNDING" herein. The Bonds are general obligations of the State of Hawaii. The interest and principal payments on the Bonds are a first charge on the General Fund of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices hereto, to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE—See Inside Cover Page

The Bonds of each series are offered when, as and if issued and received by the Underwriters, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Alston Hunt Floyd & Ing and Katten Muchin Rosenman LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about December 4, 2012.

Goldman, Sachs & Co. **BofA Merrill Lynch**

J.P. Morgan **Morgan Stanley** **Piper Jaffray & Co.** **RBC Capital Markets**

Stifel Nicolaus & Company, Inc. **Wells Fargo Securities**

Dated: November 15, 2012

STATE OF HAWAII

$444,000,000 GENERAL OBLIGATION BONDS OF 2012, SERIES EE
Dated: Date of Delivery
Due: November 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2017	$5,210,000	2.0%	0.75%	P44
2017	$2,200,000	3.0%	0.75%	R42
2017	$11,705,000	4.0%	0.75%	S33
2018	$975,000	3.0%	0.88%	P51
2018	$500,000	4.0%	0.88%	R59
2018	$18,445,000	5.0%	0.88%	S74
2019	$1,000,000	1.0%	1.09%	S25
2019	$2,645,000	3.0%	1.09%	P69
2019	$150,000	4.0%	1.09%	R67
2019	$17,085,000	5.0%	1.09%	S82
2020	$2,620,000	2.0%	1.33%	P77
2020	$1,125,000	4.0%	1.33%	R75
2020	$18,110,000	5.0%	1.33%	S41
2021	$1,070,000	3.0%	1.54%	P85
2021	$650,000	4.0%	1.54%	R83
2021	$21,195,000	5.0%	1.54%	S90
2022	$1,200,000	3.0%	1.72%	P93
2022	$8,720,000	4.0%	1.72%	R91
2022	$14,100,000	5.0%	1.72%	T24
2023†	$435,000	4.0%	1.84%	Q27
2023†	$24,755,000	5.0%	1.84%	S58
2024†	$7,435,000	4.0%	2.00%	Q35
2024†	$19,010,000	5.0%	1.91%	S66
2025†	$27,760,000	5.0%	1.96%	Q43
2026†	$29,185,000	5.0%	2.02%	Q50
2027†	$30,680,000	5.0%	2.08%	Q68
2028†	$32,255,000	5.0%	2.13%	Q76
2029†	$33,910,000	5.0%	2.19%	Q84
2030†	$35,285,000	3.0%	2.78%	Q92
2031†	$36,545,000	4.0%	2.52%	R26
2032†	$38,040,000	4.0%	2.58%	R34

† Priced to call on November 1, 2022 at 100%.

$396,990,000 GENERAL OBLIGATION REFUNDING BONDS OF 2012, SERIES EF
Dated: Date of Delivery
Due: November 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2017	$41,385,000	5.0%	0.75%	T32
2018	$43,505,000	5.0%	0.88%	T40
2019	$45,735,000	5.0%	1.09%	T57
2020	$48,080,000	5.0%	1.33%	T65
2021	$50,550,000	5.0%	1.54%	T73
2022	$53,140,000	5.0%	1.72%	T81
2023†	$55,865,000	5.0%	1.84%	T99
2024†	$58,730,000	5.0%	1.91%	U22

$26,000,000 TAXABLE GENERAL OBLIGATION BONDS OF 2012, SERIES EG
Dated: Date of Delivery
Due: November 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)
2017	$1,370,000	1.000%	1.00%	U30
2018	$1,385,000	1.300%	1.30%	U48
2019	$1,405,000	1.600%	1.60%	U55
2020	$1,430,000	1.950%	1.95%	U63
2021	$1,460,000	2.150%	2.15%	U71
2022	$1,490,000	2.250%	2.25%	U89
2023	$1,525,000	2.450%	2.45%	U97
2024	$1,565,000	2.600%	2.60%	V21
2025	$1,610,000	2.750%	2.75%	V39
2026	$1,655,000	2.850%	2.85%	V47
2027†	$1,705,000	3.375%	2.95%	V54
2028	$1,760,000	3.050%	3.05%	V62
2029	$1,815,000	3.150%	3.15%	V70
2030	$1,875,000	3.250%	3.25%	V88
2031	$1,940,000	3.350%	3.35%	V96
2032†	$2,010,000	3.625%	3.45%	W20

† Priced to call on November 1, 2022 at 100%.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Neil Abercrombie
Governor

Brian Schatz
Lieutenant Governor

Kalbert K. Young
Director of Finance

David M. Louie
Attorney General

Dean H. Seki
Comptroller

BOND COUNSEL TO STATE

Orrick, Herrington & Sutcliffe LLP

This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon.

Certain information contained in this Official Statement has been provided by the State of Hawaii. Certain other information contained herein has been obtained by the State of Hawaii from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder at any time shall create any implication that the information contained herein is correct as of any time subsequent to its date. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In making an investment decision, investors must rely on their own examination of the State of Hawaii and the terms of the offering, including the merits and risks involved.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$444,000,000 **General Obligation Bonds** **of 2012, Series EE**	**\$396,990,000** **General Obligation Refunding** **Bonds of 2012, Series EF**

\$26,000,000
Taxable General Obligation Bonds
of 2012, Series EG

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the inside cover page hereof and the appendices hereto, is to set forth information concerning the State of Hawaii (sometimes herein referred to as the "State") and its \$444,000,000 aggregate principal amount of General Obligation Bonds of 2012, Series EE (the "Series EE Bonds"), its \$396,990,000 aggregate principal amount of General Obligation Refunding Bonds of 2012, Series EF (the "Series EF Bonds"), and its \$26,000,000 aggregate principal amount of Taxable General Obligation Bonds of 2012, Series EG (the "Series EG Bonds" and, together with the Series EE Bonds and Series EF Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii. In addition, the Series EE Bonds and the Series EF Bonds are referred to collectively herein as the "Tax Exempt 2012 Bonds."

AUTHORITY AND PURPOSE

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and the laws of the State, including Part I of Chapter 39 of the Hawaii Revised Statutes, as amended ("HRS"), and pursuant to the authority of certain acts of the Legislature (the "Legislature") of the State and a Certificate of the Director of Finance of the State (the "Bond Issuance Certificate").

The proceeds from the sale of the Bonds will be used (i) in the case of the Series EE Bonds and the Series EG Bonds, to finance, or to reimburse the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the State Legislature and which the Legislature may from time to time approve, including the Hawaiian Home Lands Settlement effected by Act 14, Session Laws of Hawaii ("SLH") 1995 (Special Session), and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries, senior housing facilities and parks and for certain other public purposes, including payment of up to \$30 million during fiscal year 2012 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 164, SLH 2011, (ii) in the case of the Series EF Bonds (the "Refunding Bonds"), to refund certain outstanding general obligation bonds previously issued for such purposes, as described below under "PLAN OF REFUNDING," in order to reduce the debt service payable on the State's general obligation bonds in certain years, and (iii) to pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Part I of Appendix A.

PLAN OF REFUNDING

Upon delivery of the Refunding Bonds, the State and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), will enter into an Escrow Deposit Agreement (the "Escrow Agreement") to provide for the refunding of certain series of State of Hawaii General Obligation Bonds and General Obligation Refunding Bonds specified by the Bond Issuance Certificate (the "Refunded Bonds") and as shown in APPENDIX I—"BONDS TO BE REFUNDED." The refundings are being undertaken to realize aggregate debt service savings. The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in APPENDIX I—"BONDS TO BE REFUNDED".

The Refunded Bonds to be redeemed will be irrevocably designated for redemption on the applicable redemption dates, and provisions will be made in the Escrow Agreement for the giving of the notices of such redemption. The Refunded Bonds may not be redeemed other than as described in APPENDIX I—“BONDS TO BE REFUNDED”.

The Escrow Agreement creates an irrevocable trust fund (the “Escrow Fund”) which is to be held by the Escrow Agent, and the moneys and securities held therein are to be applied to the payment of principal of, premium, if any, and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Refunding Bonds, the State will deposit, or cause to be deposited, with the Escrow Agent, a portion of the proceeds derived from the sale of the Refunding Bonds. Moneys deposited in the Escrow Fund will be invested, at the direction of the State, in noncallable direct obligations of the United States (the “Escrow Securities”) which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied: (i) to pay the principal of and interest on the Refunded Bonds of each particular series and maturity due on and prior to the stated maturity or earlier redemption date of such Refunded Bonds as described in APPENDIX I—“BONDS TO BE REFUNDED”, and (ii) to redeem the Refunded Bonds of each particular series and maturity that are irrevocably called for redemption on the corresponding redemption date at the redemption price thereof. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal of, premium, if any, and interest on the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), not to exceed the applicable yield permitted by such provisions. See “VERIFICATION.” If the Escrow Securities are purchased in the open market, they may be purchased from one or more of the underwriters of the Bonds shown on the cover page of this Official Statement.

THE BONDS

Details of the Bonds

The Bonds will mature serially on November 1 of the years, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the inside cover pages hereof, payable on May 1 and November 1 of each year, commencing May 1, 2013 (each an “interest payment date”). The Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only under the book-entry system described herein (the “Book-Entry System”), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be paid by the Registrar and Paying Agent for the Bonds (the State is considering the use of a third party paying agent in lieu of the Director of Finance of the State of Hawaii serving as initial Registrar and Paying Agent) to DTC, which will in turn remit such principal and interest to its Direct Participants and Indirect Participants (each as defined in Appendix H), for subsequent distribution to the Beneficial Owners (as defined in Appendix H) of the Bonds, as described herein. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in related proceedings of the State. See APPENDIX H—“BOOK-ENTRY SYSTEM”. If the Bonds cease to be held in the Book-Entry System, the Director of Finance may select a different Registrar and Paying Agent to perform such payment and registration functions.

Optional Redemption of the Bonds

The Bonds maturing on or after November 1, 2023 will be subject to redemption prior to their stated maturities at the option of the State at any time on and after November 1, 2022, in whole or in part, in any order of maturity selected by the State and by lot within a maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption date.

General Redemption Provisions

If any Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in installments of $5,000 or any integral multiple thereof may be redeemed.

If any Bond (or any portion of the principal sum thereof) shall be redeemable and shall have been duly called for redemption and notice of such redemption shall have been duly given as provided in the Bond Issuance Certificate, and if on or before the date fixed for such redemption the State shall have duly made or provided for the payment of the principal sum thereof to be redeemed, the premium, if any, payable upon such redemption and the interest accrued on the principal sum to be redeemed to the date fixed for such redemption, and unless such notice is conditioned upon satisfaction of any other condition or the occurrence of any other event and such condition is not satisfied or such event has not occurred, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed.

Notice of redemption will be mailed, not fewer than 30 days prior to the fixed date for redemption, to each Holder of a Bond in whose name such Bond is registered upon the Bond Register as of the close of business on the forty-fifth day (whether or not a business day) next preceding the date fixed for redemption at such Holder's address as shown on such Bond Register. Failure of the Holder of a Bond to receive such notice by mail or any defect in such notice will not affect the sufficiency of the proceedings for the redemption of any Bond.

Any notice of any optional redemption of Bonds may state that it is conditional upon receipt by the Registrar and Paying Agent of money sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The State shall provide notice of any rescission or failure to meet any such condition or other such event as promptly as practicable after the failure of such condition or the occurrence of such other event, in the same manner as the notice of redemption.

For so long as the Book-Entry System is in effect with respect to the Bonds, the Registrar and Paying Agent will mail notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a Bond of any such redemption will not affect the sufficiency or the validity of the redemption of such Bond. See APPENDIX H–"BOOK-ENTRY SYSTEM".

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payment of principal of and interest on general obligation bonds of the State, including the Bonds, shall be a first charge on the General Fund of the State. Under said laws, the full faith and credit of the State are pledged to the punctual payment of the principal of and interest on general obligation bonds of the State, including the Bonds, and sufficient revenues shall be raised and provided from time to time for the purpose of payment. Amounts on deposit in the General Fund are applied to the payment of the debt service on the issued and outstanding general obligation bonds of the State, including the Bonds, as the debt service becomes due and payable.

Market Risk

There can be no assurance of continued marketability of the Bonds at current price levels. Various factors affect the market value of municipal securities, including the Bonds, over most of which the State has no control, such as general economic conditions, inflation, federal economic policies, interest rate trends and proposed or actual changes to the Internal Revenue Code of 1986 as amended. State finances, future State legislative actions and bond ratings may also affect the market value of the Bonds.

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the Union (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself, and under current law the State has waived its immunity to be sued in limited circumstances, including for claims against the State founded upon any State statute or upon any contract with the State (except a contract or any act of any State officer which the officer is not authorized to make or do by State law). However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against State officials to enforce such payment. The State has never defaulted in the payment of either principal of or interest on any indebtedness of the State.

THE STATE OF HAWAII

Certain general information concerning the State of Hawaii is contained in Appendix A to this Official Statement. Selected financial information concerning the State of Hawaii, including information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix B to this Official Statement. Part II of Appendix B contains the General Purpose Financial Statements and related General Fund schedules excerpted from the Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2011. The State of Hawaii provided certain information, and obtained from other sources believed to be reliable certain other information, set forth in Appendices A and B. The Underwriters (as hereinafter defined) and their counsel and Deloitte & Touche LLP, independent auditors, have not independently verified any of such information, nor have they made an independent determination of the financial position of the State. There can be no assumption that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or in any other manner affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be sold and issued. The State has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations, which are not expected to have a material adverse effect on the State's financial position.

Described in the following paragraphs under this heading and in Appendix E are certain other lawsuits and claims that, if ultimately resolved against the State, could have a material adverse effect on the State's financial condition or as to which the State is unable to predict the magnitude of its potential liability, if any. Such lawsuits and claims include those involving (i) the Office of Hawaiian Affairs ("OHA") and certain lands (the "Ceded Lands") transferred in 1898 by the Republic of Hawaii to the United States and in 1959, upon the State's admission to the Union, by the United States to the State (as to, among other things, whether the State may alienate Ceded Lands and extinguish claims Hawaiians assert to the Ceded Lands); (ii) the Hawaiian Home Lands Trust and the Department of Hawaiian Home Lands (as to certain alleged breaches of trust and fiduciary duties and related individual claims by beneficiaries of the Hawaiian Homes Commission Act of 1920, referred to herein as the "Individual Claims Cases" and "Nelson"); (iii) the Employees' Retirement System ("ERS") (as to the constitutionality of certain 1999 legislation ("Act 100") relating to employer contributions into the ERS); and (iv) the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") (as to the alleged rights of retirees and their dependents to health care benefits equivalent to those provided to active employees and their dependents).

The State intends to defend vigorously against all of the claims referred to in clause (i) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E– "PENDING LITIGATION—Office of Hawaiian Affairs and Ceded Lands." It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of the claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in Nelson referred to in clause (ii) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E–"PENDING LITIGATION—Department of Hawaiian Home Lands." The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in Nelson, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

The case relating to the ERS referred to in clause (iii) of the second paragraph under this caption has been remanded by the Hawaii Supreme Court to the circuit court for disposition in accordance with the Supreme Court's direction, as described in APPENDIX E–"PENDING LITIGATION—Employees' Retirement System." A description of the ERS and Act 100 is provided under "GENERAL INFORMATION ABOUT THE STATE OF HAWAII—EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to the matter referred to in clause (iv) of the second paragraph under this caption, as such claims and related proceedings are further described in APPENDIX E–"PENDING LITIGATION—Hawaii Employer-Union Health Benefits Trust Fund."

TAX MATTERS

Tax Exempt 2012 Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the State, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series EE Bonds and the Series EF Bonds (the "Tax Exempt 2012 Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), and the Tax Exempt 2012 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Tax Exempt 2012 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Tax Exempt 2012 Bonds is less than the amount to be paid at maturity of such Tax Exempt 2012 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax Exempt 2012 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Tax Exempt 2012 Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Tax Exempt 2012 Bonds is the first price at which a substantial amount of such maturity of the Tax Exempt 2012 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax Exempt 2012 Bonds accrues daily over the term to maturity of such Tax Exempt 2012 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax Exempt 2012 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax Exempt 2012 Bonds. Beneficial owners of the Tax Exempt 2012 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax Exempt 2012 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Tax Exempt 2012 Bonds in the original offering to the public at the first price at which a substantial amount of such Tax Exempt 2012 Bonds is sold to the public.

Tax Exempt 2012 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax Exempt 2012 Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax Exempt 2012 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax Exempt 2012 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax Exempt 2012 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Tax Exempt 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Tax Exempt 2012 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Tax Exempt 2012 Bonds is excluded from gross income for federal income tax purposes and that the Tax Exempt 2012 Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Tax Exempt 2012 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax Exempt 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Tax Exempt 2012 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Tax Exempt 2012 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax Exempt 2012 Bonds. Prospective purchasers of the Tax Exempt 2012 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax Exempt 2012 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Tax Exempt 2012 Bonds ends with the issuance of the Tax Exempt 2012 Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the State or the beneficial owners regarding the tax-exempt status of the Tax Exempt 2012 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process.

Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax Exempt 2012 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax Exempt 2012 Bonds, and may cause the State or the beneficial owners to incur significant expense.

Taxable 2012 Bonds

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series EG Bonds (the "Taxable 2012 Bonds") in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable 2012 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Taxable 2012 Bonds pursuant to this offering for the issue price that is applicable to such Taxable 2012 Bonds (i.e., the price at which a substantial amount of the Taxable 2012 Bonds are sold to the public) and who will hold their Taxable 2012 Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Taxable 2012 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Taxable 2012 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable 2012 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable 2012 Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable 2012 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, the Taxable 2012 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Taxable 2012 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Taxable 2012 Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix G hereto.

The Taxable 2012 Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Taxable 2012 Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Taxable 2012 Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable 2012 Bonds.

Disposition of the Taxable 2012 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the State) or other disposition of a Taxable 2012 Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable 2012 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable 2012 Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Taxable 2012 Bond (generally, the purchase price paid by the U.S. Holder for the Taxable 2012 Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Taxable 2012 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder's holding period for the Taxable 2012 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Taxable 2012 Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the State through stock ownership and (2) a bank which acquires such Taxable 2012 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Taxable 2012 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Taxable 2012 Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Taxable 2012 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Taxable 2012 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Taxable 2012 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Taxable 2012 Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Taxable 2012 Bond, to certain noncorporate holders of Taxable 2012 Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Taxable 2012 Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable 2012 Bond or a financial institution holding the Taxable 2012 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable 2012 Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Taxable 2012 Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Taxable 2012 Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Taxable 2012 Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

CIRCULAR 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the State and its tax advisors are (or may be) required to inform prospective investors that:

i. any advice contained herein is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;

ii. any such advice is written to support the promotion or marketing of the Taxable 2012 Bonds and the transactions described herein; and

iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix G hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Alston Hunt Floyd & Ing and Katten Muchin Rosenman LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., have rated the Bonds "AA," "Aa2" and "AA," respectively, based on the credit of the State. The State furnished the rating agencies with certain information and materials relating to the Bonds and the State which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on investigations, studies and assumptions made by such rating agency. Such ratings reflect only the respective views of such rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that any of such ratings will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The State undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, Piper Jaffray & Co., RBC Capital Markets, LLC, Stifel, Nicolaus & Company, Inc. and Wells Fargo Bank, National Association (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus net original issue premium of $199,858,382.50, less an aggregate underwriting discount of $2,588,733.23, which includes $462,150.00 for other costs of issuance. The Underwriters will be obligated to purchase all of the Bonds if any are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices appearing on the inside cover, and the public offering prices may be changed from time to time.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail brokerage joint venture. As part of the joint venture Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with its allocation of Bonds.

J.P. Morgan Securities LLC has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from J.P. Morgan Securities LLC at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

Wells Fargo Bank, National Association ("WFBNA"), one of the Underwriters of the Bonds, has entered into an agreement (the "WFBNA Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFBNA Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds. WFBNA and WFA are both subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State.

FINANCIAL ADVISOR

The State has retained Public Financial Management, Inc., San Francisco, California, as financial advisor with respect to the issuance of the Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CAUTIONARY STATEMENTS REGARDING FORWARD LOOKING STATEMENTS AND PROJECTIONS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words.

The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward looking statements. The State does not plan to issue any updates or revisions to those forward looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligations, as described under "CONTINUING DISCLOSURE."

Certain statements set forth in this Official Statement constitute "projections" and were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State's management, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future information. Neither the State's independent auditors, nor any other independent accountants, have complied, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Certificate (the "Disclosure Certificate") in the form set forth in Appendix F hereto, for the benefit of the holders and Beneficial Owners of the Bonds, agreeing to provide certain financial information and operating data relating to the State electronically to the Municipal Securities Rulemaking Board annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. §240.15c2-12) (the "Rule"). See APPENDIX F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The State has not failed to comply in any material respect with any of its previous continuing disclosure certificates under the Rule during the previous five years. A failure by the State to comply with the Disclosure Certificate will not constitute an event of default of the Bonds, although any Bondholder or any Beneficial Owner may bring action to compel the State to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

VERIFICATION

Causey Demgen & Moore P.C. (the "Verification Agent") will verify from the information provided by Goldman, Sachs & Co. the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by Goldman, Sachs & Co. to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Escrow Securities and the Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Tax Exempt 2012 Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Tax Exempt 2012 Bonds from gross income for federal income tax purposes.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2011, included as Part II of Appendix B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors (which report expresses an unqualified opinion on the financial statements). There can be no assurance that the information in Part II of Appendix B is indicative of the current financial position or future financial performance of the State.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

Neither this Official Statement, nor any statement that may have been made verbally or in writing, is to be construed as a contract with the holders of any of the Bonds.

The Department of Budget and Finance, State of Hawaii has prepared this Official Statement and has duly authorized the delivery hereof.

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix A is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2010 U.S. Census, about 70.1 percent of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from Asia well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State's population is of Asian descent and about 24.7 percent of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four year terms and a House of Representatives of fifty-one members elected for two year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six year program and financial plan, the State budget, and financial management programs of the State.

No Voter Initiative and Referendum

The Hawaii State Constitution and Hawaii state law do not authorize either State-wide voter initiatives (that is, the electoral process by which a percentage of voters can propose legislation and compel a vote on it to enact such a measure) or State-wide referendum actions (that is, the process of referring a state legislative act or an important public issue to the public for their final approval by public vote). The issuance of bonds is not subject to approval by public vote.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

The Constitution of the State empowers the Legislature to authorize the issuance of four types of bonds (defined by the Constitution as bonds, notes and other instruments of indebtedness): general obligation bonds (defined by the Constitution as all bonds for the payment of the principal and interest for which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, including reimbursable general obligation bonds hereinafter defined); bonds issued under special improvement statutes; revenue bonds (defined by the Constitution as all bonds payable from revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law); and special purpose revenue bonds (defined by the Constitution as all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law, including a loan program to a state property insurance program providing hurricane coverage to the general public). Under the Constitution, special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist, manufacturing, processing or industrial enterprises, certain not-for-profit private schools, utilities serving the general public, health care facilities provided to the general public by not-for-profit corporations, early childhood education and care facilities provided to the general public by not-for-profit corporations, agricultural enterprises serving important agricultural lands, or low and moderate income government housing programs. All bonds of the State other than special purpose revenue bonds must be authorized by a majority vote of the members to which each house of the Legislature is entitled. Special purpose revenue bonds of the State must be authorized by two-thirds vote of the members to which each house of the Legislature is entitled.

Outstanding Indebtedness and Debt Limit

The Constitution provides that determinations of the total outstanding indebtedness of the State and the exclusions therefrom shall be made annually and certified by law or as prescribed by law. General obligation bonds may be issued by the State, provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds in the current or any future fiscal year, whichever is higher, to exceed a sum equal to 18.5% of the average of the General Fund revenues of the State in the three fiscal years immediately preceding such issuance. For the purposes of such determination, General Fund revenues of the State do not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded in computing the total indebtedness of the State.

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2012 statement is the most recent such statement prepared and submitted to the Legislature. See "INFORMATION ABOUT INDEBTEDNESS" in Part I of Appendix B for a tabular summary of the statement of total outstanding indebtedness of the State and exclusions therefrom as of July 1, 2012, including general obligation bonded indebtedness, revenue bonded indebtedness, special assessment bonded indebtedness and special purpose revenue bonded indebtedness, and the permitted exclusions from the general obligation bonded indebtedness. See APPENDIX D—"GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII."

The summary statement of debt limit of the State evidencing the power of the State to incur indebtedness sets forth the General Fund revenues of the State, exclusive of federal grants, for the fiscal years ended June 30, 2010, 2011 and 2012 and the net General Fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII" in Part I of Appendix B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of December 1, 2012 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $685,973,183 in the fiscal year ending June 30, 2014. A summary of debt service on all general obligation bonded indebtedness of the State is set forth under "SUMMARY OF DEBT SERVICE" in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution.

As calculated from the State Comptroller's Bond Fund report as of September 30, 2012, the amount of authorized but unissued general obligation bonds (including the Series EE Bonds and the Series EG Bonds) is $2,400,241,353. Such amount does not include general obligation refunding bonds such as the Refunding Bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2015.

Exclusions

The Constitution contains nine general provisions excluding certain types of bonds (including certain general obligation bonds) when determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision. Six of these exclusions are described below. As stated above, the limitation on indebtedness of the State under the Constitution applies only to the power to issue general obligation bonds, and the limitation is measured by the debt service on general obligation bonds against the three year average of General Fund revenues. The three exclusions relating to revenue bonds, special purpose revenue bonds, and bonds issued under special improvement statutes for which the only security is the properties benefited or assessments thereon are chiefly of concern to counties when computing the funded debt of counties. Accordingly, those provisions will not be discussed in this Official Statement. However, the complete provisions of Sections 12 and 13 of Article VII of the Constitution relating to the incurring of indebtedness by the State and its political subdivisions are set forth in Appendix C.

One of the nine exclusionary provisions excludes bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then current fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

Another of the exclusionary provisions excludes reimbursable general obligation bonds (defined in the Constitution as general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the General Fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the General Fund is required by law to be made from the revenues of the political subdivision) issued for a public undertaking, improvement or system, but only to the extent that reimbursements to the General Fund are made from the net revenues, or net user tax receipts, or combination of both, derived from the particular undertaking, improvement or system or payments or return on security under a loan program or a loan thereunder for the immediately preceding fiscal year, with the result that the amount of reimbursable general obligation debt excluded will vary from year to year. A "user tax" is defined by the Constitution as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system, provided that mortgage recording taxes shall constitute taxes of a State property insurance program. Thus, for example, the aviation fuel tax is a user tax insofar as the airports system of the State is concerned, since the tax is substantially derived from the sale of a good (aviation fuel) in the utilization of the functions of the airports, but the aviation fuel tax would not be a user tax so far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

Two other exclusionary provisions exclude (a) reimbursable general obligation bonds of the State issued for any political subdivision, but only for so long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law, and (b) general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for principal and interest on such bonds are in fact made from assessment collections available therefor.

One other exclusionary provision excludes bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded by the exclusionary provisions of the Constitution and subject to the condition that the State shall establish a reserve in an amount in a reasonable proportion to outstanding loans guaranteed by the State. This exclusion is intended to permit the exclusion of such items as general obligation guarantees of loans under State loan programs to the extent the principal amount of such items does not exceed 7% of the outstanding principal amount of general obligation bonds not otherwise excluded. At such time as the principal amount of such items exceeds 7% of the outstanding principal amount of general obligation bonds not otherwise excluded, the potential debt service on all such items in excess of 7% of the outstanding principal amount of general obligation bonds not otherwise excluded would be included in determining the power of the State to incur indebtedness.

A final exclusionary provision excludes bonds issued by or on behalf of the State or a political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

Other Constitutional and Statutory Provisions

General obligation bonds of the State must be authorized pursuant to the Constitution by a majority vote of the members to which each house of the Legislature is entitled. The Legislature from time to time enacts laws specifying the amount of such bonds (without fixing any particular details of such bonds) that may be issued and defining the purposes for which the bonds are to be issued.

The Constitution requires that general obligation bonds of the State with a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest, the first installment of principal to mature not later than five years from the date of the issue of such series and the last installment to mature not later than twenty-five years from the date of such issue, except that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue.

Part I of Chapter 39, HRS, as amended, is the general law for the issuance of general obligation bonds of the State. Such part sets forth limitations on general obligation bonds, such as interest rates and maturity dates, and also sets forth the provisions for the sale and form of such bonds. Such part provides that the Director of Finance, with the approval of the Governor, may issue from time to time general obligation bonds of the State in accordance with acts of the Legislature authorizing the issuance of such bonds and defining the purposes for which such bonds are to be issued.

The Governor determines when the projects authorized by the acts authorizing bonds shall commence. General obligation bonds are sold from time to time pursuant to the authorization of such acts and Part I of Chapter 39, HRS, as amended, in order to finance the projects. The Governor then allots the proceeds of the bonds so issued to the purposes specified in the acts authorizing bonds.

Section 11 of Article VII of the Constitution provides that all appropriations for which the source is general obligation bond funds or the General Fund must be for specified periods which may not exceed three years, except for appropriations from the State Educational Facilities Improvement Special Fund. Any appropriation or any portion of an appropriation which is unencumbered at the close of the fiscal period for which the appropriation is made will lapse, provided that no appropriation or portion thereof for which the source is general obligation bond funds shall lapse if the Legislature determines that such appropriation is necessary to qualify for federal aid financing and reimbursement. A general obligation bond authorization, to the extent such authorization is dependent on a specific appropriation, must be reduced in an amount equal to the amount of appropriation lapsed by operation of law or Section 11 of Article VII of the Constitution.

Set forth in Appendix C are the provisions of Sections 11, 12 and 13 of Article VII of the Constitution applicable to the incurring of indebtedness by the State and its political subdivisions.

Financing Agreements (Including Leases)

HRS Chapter 37D provides for financing agreements (including leases and installment sale agreements) for the improvement, use or acquisition of real or personal property which is or will be owned or operated by the State or any State agency and specifies that any such financing agreement shall not be an obligation for which the full faith and credit of the State or any State agency is pledged, and that no moneys other than amounts appropriated by the Legislature or otherwise held in trust for such purposes shall be required to be applied to the payment thereof. The Legislature is not required to appropriate moneys for such purpose, and financing agreements do not constitute "bonds" within the meaning of Sections 12 or 13 of Article VII of the Constitution. Chapter 37D does provide that the Governor's Executive Budget shall include requests to the Legislature for appropriation of moneys to pay amounts due each fiscal period under financing agreements. See "SUMMARY OF DEBT SERVICE—Certificates of Participation".

Reimbursement to State General Fund for Debt Service

As indicated above, all general obligation bonds of the State are payable as to principal and interest from the General Fund of the State. Acts of the Legislature authorizing the issuance of general obligation bonds for certain purposes frequently (but not always) require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any income or revenues or user taxes derived from the carrying out of such purposes. Such income or revenues or user taxes are not pledged to the payment of such bonds. There are now outstanding general obligation bonds (including general obligation refunding bonds) issued for highway, harbor and airport facilities, for land development, for economic development projects, for university revenue projects, and for State parking facilities, where the General Fund of the State is required to be reimbursed for all debt service. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund" for a description of such taxes. Reimbursement to the General Fund of all the other general obligation bonds referred to in this paragraph is made from non-tax revenues, such as from wharfage and dockage charges, pier rentals and other charges for harbor facilities; from land sales or rentals; and from dormitory and dining hall revenues and income from other ancillary facilities.

Some of the bonds referred to in the immediately preceding paragraph do not constitute "reimbursable general obligation bonds" excludable from the debt limit because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "DEBT STRUCTURE—Exclusions." See "GENERAL OBLIGATION BONDS OUTSTANDING" in Part I of Appendix B for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL

Introduction

The State receives the majority of its revenues from taxes, fees and other sources, the most significant of which are the general excise tax, personal income tax, insurance premium tax, and corporation tax (which collectively constitute approximately 80 percent of total General Fund revenues). The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of all taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and Special Funds. The revenues and expenditures for the last five fiscal years of the General Fund are set forth in Part I of Appendix B.

The State Constitution does not prohibit or limit the power of taxation, and reserves all taxing power to the State, except to the extent delegated by the Legislature to the political subdivisions of the State and except all the functions, powers and duties related to real property taxation, which is exercised exclusively by the counties. The State cannot predict the impact, if any, of proposed changes in the federal individual and corporate income tax laws on the tax revenues of the State.

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The fifth tax review commission convened on July 26, 2005, and issued its report in final form on December 1, 2006, in which it concluded that the Hawaiian tax system is "basically sound." The sixth tax review commission convened on July 15, 2011 and will present its report to the 2013 legislative session. The commission also hired a consultant to draft a study on Hawaii's tax system which was recently submitted for public comment and review.

General Fund

The General Fund is used to account for resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through the General Fund. The appropriations acts adopted by the Legislature provide the basic framework in which the resources and obligations of the General Fund are accounted. The operating appropriations and the related General Fund accounting process complement each other as basic control functions in the general administration of the government.

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each year, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2006 and 2007 fund balances exceeded 5% of General Fund revenues for those years, the two successive fiscal year criterion was met and the 2008 Legislature passed Act 58, SLH 2008 to provide for a tax credit in the aggregate amount of approximately $1,000,000. The fund balance for fiscal year 2008 also exceeded 5% of General Fund revenues and the 2009 Legislature passed Act 84, SLH 2009, to provide for a tax credit in the aggregate amount of approximately $1,100,000. Because the fund balances for fiscal years 2009 and 2010 did not exceed 5% of General Fund revenues, the 2010, 2011 and 2012 legislatures were not required to provide for a tax refund or tax credit. Furthermore, because the fund balances for fiscal years 2011 and 2012 did not exceed 5% of General Fund revenues, the 2013 and the 2014 legislatures will not be required to provide for a tax refund or tax credit. In November 2010, Section 6 of Article VII, State Constitution, was amended to authorize the Legislature to provide for a tax refund or tax credit to taxpayers of the State or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of an emergency, economic downturn or unforeseen reduction in revenues, as provided by law. Act 138, SLH 2010, provided for the deposit of general funds into the Emergency and Budget Reserve Fund whenever State general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%; however, to date, no such deposits have been required.

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance makes projections of the General Fund revenues and expenditures for each fiscal year and revises such projections from time to time during the fiscal year. See “REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—General Fund Financial Plan” in Part I of Appendix B for further information.

Taxes and Other Amounts Deposited in General Fund

The proceeds of the taxes described below are deposited in the General Fund. See “REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual Tax Collections and Distributions” in Part I of Appendix B.

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, transient accommodations taxes, and certain insurance premium taxes, which for fiscal year 2012 represented approximately 87% of all tax revenues of the State, are deposited to the General Fund.

General Excise and Use Tax. The general excise tax is a tax imposed on businesses for the privilege of doing business in Hawaii, and is assessed at various percentage rates on the gross income businesses derive from activity in the State. Businesses also may need to pay the use tax on the value of tangible personal property, services, and contracting that are brought into Hawaii from anywhere outside Hawaii. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. The general excise tax rate varies depending on the business activity; it is 0.15% on insurance commissions, 0.5% on certain activities such as wholesaling, and 4% on most activities at the consumer level. For FY2012 the general excise tax comprised approximately 50% of all general fund revenues. Effective January 1, 2007, the general excise and use tax was amended to provide the City and County of Honolulu a surcharge thereby increasing the general excise and use tax rate for transactions attributable to the county. The surcharge of ½ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes through 2022. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the costs of assessment, collections and disposition incurred by the State.

Income Taxes. Net taxable income (gross income less exclusions and deductions) for both individuals and corporations is subject to State income tax. Although there are differences, Hawaii income tax law generally follows the federal Internal Revenue Code in computing the net taxable income. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 11.0% of net taxable income. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%.

Other Taxes. The General Fund receives revenues from several other taxes. The Public Service Company tax is a tax on the gross income from public utility business of public utilities in lieu of the general excise tax. The tax rate on gross income of Public Services Companies ranges from 1/2% (for sales for resale) to 8.2%. For a public utility, only the first 4% is a realization of the State, and any excess over 4% is distributed to counties that (1) provide by ordinance for a real property tax exemption for real property used by the public utility in its public utility business and owned by the public utility, or leased by the public utility under a lease requiring the public utility to pay the taxes on the property, and (2) that have not denied the exemption to the public utility. For a carrier of passengers by land between points on a scheduled route, the gross income is taxed at 5.35%, all of which is realized by the State. The estate tax is a tax on the transfer of a taxable estate and is based on the federal taxable estate, but has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%). The Banks and financial corporations tax is a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the taxes discussed above. The tax is assessed on net income for the preceding year from all sources at a rate 7.92%. Insurance premiums tax is a tax on insurance companies (underwriters) based on premiums written in the State In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates range between .8775% and 4.68% depending on the nature of the policy. There is also an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Non-tax Revenues. Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. From FYs 2004 to 2008 and in FY 2010 and FY 2012, non-tax revenues have averaged approximately 12% of General Fund revenues. In fiscal year 2009, however, non-tax revenues were approximately 16% of total general fund revenues, primarily as a result of one-time revenue sources such as: (1) the transfer of $81 million from special funds that was authorized by Act 79, SLH 2009; and (2) the transfer of $104 million resulting from debt service savings and a delay in payments for retirement and health insurance premiums. In FY 2011, non-tax revenues were again approximately 16% of total general fund revenues, primarily as a result of one-time sources such as: (1) the transfer of $111 million from the Hurricane Reserve Trust Fund that was authorized by Act 62, SLH 2011, and (2) the transfer of $63 million from non-general funds that was authorized by Act 192, SLH 2010 and Act 124, SLH 2011.

Transient Accommodations Tax. A variety of other taxes are levied by the State including taxes on transient accommodations, conveyance and fuel and are allocated among various funds and to the counties. The transient accommodations tax (TAT) of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. For the period beginning July 1, 2009, and ending June 30, 2010, 1.0% was assessed in addition to the existing 7.25% transient accommodations tax (total of 8.25%). For the period beginning July 1, 2010, and ending June 30, 2015, 2.0% is assessed in addition to the existing 7.25% transient accommodations tax (total of 9.25%). The additional amounts are to be deposited to the General Fund, except that 12.5% of the additional amount for FY 2011 was deposited to the Tourism Special Fund. Act 103, SLH 2011, established a $10 daily tax on each transient accommodation furnished at no charge. The Act also temporarily (from July 1, 2011 to June 30, 2015) limits the TAT revenue distribution to the counties to $93 million per year, and limits the distribution to the tourism special fund to $69 million per year. Act 171, SLH 2012, temporarily (from July 1, 2012 to June 30, 2015) increased the distribution to the tourism special fund from $69 million to $71 million. Any revenue in excess of these limits is retained by the General Fund.

Special Funds

Special Funds are used to account for revenues designated for particular purposes. Unlike the General Fund, Special Funds have legislative or other restrictions imposed upon their use. Special Funds are not a source of payment for the Bonds. Special Funds are used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, certain programs in the area of public education and the University of Hawaii, business regulation, consumer protection, environmental management and tourism and other economic development. The types of revenues credited to the various Special Funds are user tax receipts (fuel taxes), revenues from public undertakings, improvements or systems (airports, harbors and university revenue producing undertakings, among others), and various business, occupation and non business licenses, fees and permits.

Fuel taxes, motor vehicle taxes, and unemployment insurance taxes are deposited to Special Funds. In addition, portions of the rental motor vehicle and tour vehicle surcharge taxes, tobacco taxes, transient accommodations taxes, environmental response taxes, and conveyance taxes are deposited into Special Funds (and portions of these taxes are deposited into the General Fund). In fiscal year 2012, those taxes were approximately 12% of the total tax revenues of the State. Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. The State has a vehicle weight tax that varies from $0.0175 per pound to $0.0225 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of $300.00. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25 passenger seat category and for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. Act 104, SLH 2011, raised the rental motor vehicle surcharge to $7.50 per day and deposited $4.50 to the general fund, effective from July 1, 2011 to June 30, 2012. The tobacco tax currently assesses $0.16 for each cigarette or little cigar, 70% of the wholesale price of tobacco products, and 50% of the wholesale price of each large cigar. The environmental response taxes are currently set at $1.05 per barrel of petroleum product for the period from July 1, 2010 to June 30, 2015. The conveyance taxes are imposed on the amount paid in the sale, lease, sublease, assignment, transfer, or conveyance of realty or any interest therein. The tax rate ranges from $0.10 per $100 to $1.25 per $100, depending on the value of the property.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. In recent years, these amounts vary but generally account for approximately 15% to 16% of the total State budget for each year, but are not a source of payment for the Bonds. With the expected receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increases to 23% in fiscal year 2010, 19% in fiscal year 2011, and 18.4% in fiscal years 2012 and 2013. Approximately 52% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 23% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 9% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 9% of such federal receipts. Other programs account for the balance of such receipts. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount (in millions)
2002	$1,382.2
2003	1,590.8
2004	1,724.9
2005	1,830.6
2006	1,877.4
2007	2,009.8
2008	1,999.0
2009	2,294.2
2010	2,845.0*
2011	3,114.4*
2012	2,573.3*

* Includes $367.7 million is fiscal year 2010, $506.7 million in fiscal year 2011 and $158.0 million in fiscal year 2012 from federal stimulus funds (note: amounts for federal stimulus funds do not include University of Hawaii).

Source: State of Hawaii—Department of Accounting and General Services.

As of June 30, 2012, the State of Hawaii has been awarded a cumulative amount of $1,771,689,766 in federal stimulus aid through formula and competitive grants. As of June 30, 2012, Hawaii has been awarded a cumulative amount of $560,364,097 in Federal Medical Assistance Percentage funds, a cumulative amount of $192,178,168 in State Fiscal Stabilization Funds and a cumulative amount of $286,402,176 for infrastructure improvements.

Budget System; Legislative Procedure

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act is to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources. The act established a comprehensive system for State programs and their related costs over a time frame of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services. The act provides that the Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd numbered year, the Governor shall submit to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch, the legislative branch, and the Office of Hawaiian Affairs are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even numbered year, the Governor may submit to the Legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the Legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor.

To become law, a bill must pass three readings in each house on separate days. Each bill passed by the Legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature sine die, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the Legislature sine die, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the Legislature that the Governor plans to return such bill with the Governor's objections on that day. The Legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the Legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

Emergency and Budget Reserve Fund; Tobacco Settlement; Hurricane Relief Fund

Emergency and Budget Reserve Fund. HRS Chapter 328L, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and "rainy day" purposes. Deposits to the EBR Fund include appropriations made by the legislature and a portion of the tobacco settlement moneys. In addition, Act 138, SLH 2010, provided that whenever State general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the State general fund balance at the end of the fiscal year shall be deposited into the EBR Fund; however, no such transfer shall be made whenever the balance of the emergency and budget reserve fund is equal to or more than 10% of general fund revenues for the preceding fiscal year. Thus far, no transfers have been required. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two thirds majority vote of each house of the Legislature. The table below provides EBR Fund balances as of the end of each fiscal year from 2004 through 2012.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2004-2012)

Fiscal Year	$ (Millions)
2004	54.0
2005	54.1
2006	53.5
2007	61.5
2008	74.0
2009	60.4
2010	62.5
2011	9.7(1)
2012	24.2(1)

Source: Department of Accounting and General Services.

(1) In FY 2011, the fund balance decreased because a total of $59.6 million was transferred out of the EBR Fund pursuant to Act 191, SLH 2010 (as amended by Act 25, SLH 2011) and Act 30, SLH 2011, to maintain levels of programs determined to be essential to education, public health and public welfare, and to cover a shortfall in public welfare programs. In FY 2012, the fund balance increased because a total of $15.7 million of unspent funds was returned to the EBR Fund while $1.1 million was transferred out of the fund pursuant to Act 191, SLH 2010.

Tobacco Settlement. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement ranging from $48 to $63 million a year for fiscal years 2012 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.4 billion through 2027. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

Of the tobacco settlement moneys received by the State each fiscal year, $350,000 is deposited in the Tobacco Enforcement Special Fund and a special fund assessment is deducted. In fiscal year 2012, the balance was distributed as follows: 25% to the Department of Health, 28% to the University of Hawaii, and 47% to the State general fund. Pursuant to Act 124, SLH 2011, the EBR Fund's portion of the tobacco settlement moneys are temporarily diverted to the general fund in fiscal years 2012 and 2013. As such, no tobacco settlement moneys were deposited to the EBR Fund in fiscal year 2012 and none is expected in fiscal year 2013. In fiscal year 2014, the distribution will be: 15% to the EBR, 25% to the Department of Health, 6.5% to the Hawaii tobacco prevention and control trust fund, 27% to the University of Hawaii, and 26.5% to the State general fund. In fiscal year 2015, distributions will remain the same as fiscal year 2014, except for the University of Hawaii which will change from 27% to 26% and for the State general fund which will change from 26.5% to 27.5%.

The following table shows annual proceeds from the tobacco settlement for fiscal years 2004 through 2012.

Tobacco Settlement Proceeds
(Fiscal Years Ended June 30, 2004-2012)

Fiscal Year	$ (Millions)
2004	37.8
2005	38.4
2006	35.2
2007	36.9
2008	56.1
2009	60.4
2010	50.9
2011	47.7
2012	48.6

Source: Department of Health.

Hawaii Hurricane Relief Fund. The Hawaii Hurricane Relief Fund ("HHRF") was established pursuant to Act 339, SLH 1993, (codified as Chapter 431P, HRS) to provide hurricane insurance coverage for Hawaii property owners should the private market prove unreliable. It was created to address the problem of private insurers leaving the hurricane insurance market following Hurricane Iniki in September 1992. As of January 1, 1999, the HHRF provided hurricane coverage for approximately 155,000 policyholders statewide. The HHRF ceased operations in 2002 when private insurers returned fully to the market. No policies have been issued since that time.

The HHRF's operations are funded by policyholder premiums, assessments on licensed Hawaii property and casualty insurers, a special mortgage recording fee, and a surcharge on premiums on policies issued by licensed property and casualty insurers (as necessary). As a component of the HHRF funding, the Director of Finance was authorized to issue revenue bonds and reimbursable general obligation bonds to assist the HHRF in carrying out its plan of operation. However, no revenue or reimbursable general obligation bonds were issued.

Upon ceasing operations, the HHRF's reserves, amounting to $186.7 million, have been kept in the HHRF to provide working capital if reactivation of operations becomes necessary. Reactivation may be needed if a major hurricane were to strike the Hawaiian Islands in the future, and private insurers, after settling claims for that event, were to leave the hurricane insurance market again.

Section 431P-16(i), HRS, provides that upon dissolution of the HHRF, net monies in the HHRF after payments to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks are completed revert to the general fund. Act 179, SLH 2002, designated that interest earned from the principal of monies in the HHRF shall be deposited into the general fund each year that the HHRF remains in existence.

Although not formally established as a budget reserve, the HHRF has been used as a de facto budget reserve. Act 143, SLH 2010, appropriated $67.0 million from the HHRF (of which $12.4 million was not required and was subsequently returned to the HHRF) to restore public school instructional days for school year 2010-11 that were reduced as part of a cost cutting, collective bargaining agreement that furloughed public school teachers for 21 days of which 17 were instructional days. Act 62, SLH 2011, authorized the Governor to transfer in two steps the remaining balance of the HHRF to the general fund (at that point $120.3 million) in fiscal year 2010-11 to maintain program levels determined to be essential for education, public health, and public welfare. In total, $111.0 million was transferred pursuant to Act 62. Act 62 also provides a statutory mechanism to repay the HHRF in fiscal years 2013-14 (50 percent) and 2014-15 (50 percent) through designation of general excise tax revenues.

The balance of the HHRF as of June 30, 2012 is $21.7 million.

Expenditure Control

Expenditure Ceiling. The Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount. Appropriations for recent fiscal years, except fiscal year 2007, have not exceeded the expenditure ceiling. Current and projected appropriations for 2013 are not expected to exceed the expenditure ceiling.

The Constitution provides that no public money shall be expended except as appropriated by law. It also requires that provision for the control of the rate of expenditures of appropriated State moneys, and for the reduction of such expenditures under prescribed conditions, shall be made by law and that General Fund expenditures for any fiscal year shall not exceed the State's current General Fund revenues and unencumbered cash balances, except when the Governor publicly declares the public health, safety or welfare is threatened, as provided by law.

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by HRS Chapter 37. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the UH. Requests to amend allotments must be approved by the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, the general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for 5% of appropriations to the Department of Education, which by statutory authority may be retained up to one year into the next fiscal biennium. The Office of the Governor approves consultant contracts above $100,000 as to justification and need. Department heads have been delegated authority to review and approve certain consultant contracts such as medical services. In order to realize savings from bulk acquisition, central purchasing is used for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction of $10,000 or more before any payment can be made, except for the UH and the Department of Education, which have statutory authority to pre-audit payments made by them. Financial audits of individual programs and organizations are conducted on a periodic basis by the Department of Accounting and General Services. Internal audits are done on a continuous basis by each department. Management audits are accomplished on an as needed basis by the Department of Budget and Finance. In addition, the State Auditor performs financial and management audits on a selective basis.

Capital Improvement Expenditures. Annual capital improvement implementation plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for compliance with legislative intent and other economic considerations, and as to its justification. The Governor must approve the release of funds before any action can be taken. Competitive bidding is enforced to ensure that the lowest possible costs are obtained. Change orders during construction must be substantiated and approved by the expending agency. The need for additional capital improvement funds for each project must be approved by the Governor and must be funded from available balances of other capital improvement project appropriations. An assessment of the quality of construction material being used is performed on a continuous basis. Individual guarantees and warranties are inventoried and monitored as to the adequacy of stipulated performances. Additional reviews and assessments are conducted to identify and resolve any environmental concerns and to preserve historical and archaeological sites, and coastal areas.

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund ("SEFISF"). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. The fund is capitalized by annual appropriations of at least $45 million in general obligation bonds or by annual transfers of at least $45 million from the General Excise Tax if no general obligation bond appropriations are authorized.

Act 164, SLH 2011, as amended by Act 106, SLH 2012, appropriated $538.2 million for fiscal year 2012 and $296.5 million for fiscal year 2013 of general obligation bond funds to be transferred to the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

The Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. HRS Chapter 89 provides for 13 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of bargaining units for nonsupervisory blue collar positions, supervisory blue collar positions, nonsupervisory white collar positions, supervisory white collar positions, registered professional nurses, institutional health and correctional workers and professional and scientific employees, the Governor of the State shall have six votes, and the mayors of each of the counties, the Chief Justice of the State Judiciary and the Hawaii Health Systems Corporation Board shall each have one vote. In the case of bargaining units for police officers and fire fighters, the Governor shall have four votes and the mayors shall each have one vote. In the case of bargaining units for teachers and educational officers, the Governor shall have three votes, the State Board of Education shall have two votes and the state superintendent of education shall have one vote. In the case of bargaining units for UH faculty and UH administrative professional and technical staff, the Governor shall have three votes, the UH Board of Regents shall have two votes and the UH president shall have one vote. Decisions by the employer representatives shall be on the basis of simple majority, except when a bargaining unit includes county employees from more than one county. In such case, the simple majority shall include at least one county.

By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding, and, if mutually agreeable to the parties, final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies. If final and binding arbitration is not agreed upon, either party may take other lawful action to end the dispute, which, in the case of blue collar workers, public school teachers and university professors, could include an employee strike. In the case of the remaining ten bargaining units, including fire fighters and police officers, a strike is prohibited by law, and negotiation impasses are subject to mandatory final and binding arbitration, subject to appropriation of cost items, as described above. Certain employees are not party to a formal labor contract, including elected and appointed officials and certain contractual hires.

The status of negotiations for wages and health benefits the period from July 1, 2011 to June 30, 2013 is as follows:

> A six-year agreement for the period July 2009 through June 2015 with the University of Hawaii Professional Assembly ("UHPA") reached in January 2010 provides a 6.7% salary reduction beginning January 2010 through June 2011. A payroll lag is implemented beginning with the June 30, 2010 pay day. The fourth, fifth, and sixth years of the agreement provide for lump sum payments equivalent to the reductions in the first two years of the contract, and the fifth and sixth years of the agreement provide for additional 3% increases in each year. Minimum annual salaries are also established which are adjusted in

the first, third, fourth and fifth years of the contract. The overall impact of the salary minimums and across-the-board increases is an approximate 6.6% increase going forward.

A new agreement was ratified April 25, 2011 for Unit 2 (blue collar supervisors), Unit 3 (white collar workers), Unit 4 (white collar supervisors), Unit 6 (educational officers), Unit 8 (University of Hawaii administrative, professional technical staff), and Unit 13 (professional and scientific employees). The agreements provide for a 5% wage reduction beginning July 2011 through June 2013. These agreements contain a "most favored nation" provision that entitles the respective units to receive equivalent consideration should one of the units still in negotiation receive more favorable provisions in its agreement.

Effective July 1, 2011, the Department of Education implemented its June 9, 2011 Last, Best, and Final Offer to bargaining Unit 5 (Teachers). Provisions include a 1.5% salary reduction and 9 days of directed leave without pay for 12-month employees and 7 ½ days for 10-month employees for each fiscal year for the period July 1, 2011 through June 30, 2013.

An agreement was reached with Unit 1 (blue collar workers) on November 9, 2011. The agreement provides for fourteen days of directed leave without pay for Fiscal Year 2011 - 2012 and thirteen days of directed leave without pay for Fiscal Year 2012 - 2013.

The agreement with Unit 1 may impact existing agreements with UHPA and Units 2, 3, 4, 6, 8 and 13 because of the "most favored nation" provision contained in those agreements, resulting in additional contributions to the Employer Union Trust Fund for health benefits.

All unsettled bargaining units are at statutory impasse, though negotiations have continued.

Unit 9 (Nurses) members rejected a tentative agreement on April 25, 2011. Unit 9 is subject to mandatory binding arbitration. An arbitration hearing date has been set for November 5, 2012.

Unit 10 (institutional health and correctional workers) is subject to mandatory binding arbitration. Arbitration hearings were completed on July 26, 2012, posthearing briefs are due October 9th and the decision is expected in November.

Unit ll (firefighters) is subject to binding arbitration. An arbitration hearing date has not been set as yet.

In addition, the following matters are presently pending:

The Hawaii State Teachers Association has filed a prohibited practice complaint with the Hawaii Labor Relations Board regarding the Department of Education's implementation of the employer's Last, Best, and Final Offer and is seeking interlocutory relief from wage reductions and decreases to employer contributions for Employer-Union Health Benefits contributions. Hearings are completed and awaiting a decision.

State Employees' Health Benefits

Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as HRS Chapter 87A), established the Hawaii Employer Union Health Benefits Trust Fund ("Trust Fund"). The Trust Fund provides health and other benefit plans for public employees, retirees and their dependents. The employers participating in the Trust Fund include the State and each of the counties. Public employer contributions to the Trust Fund for the health and other benefit plans of public employees and their dependents are determined under HRS Chapter 89C, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of voluntary medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in HRS Chapter 87A.

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorized employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust was to provide health benefits to State and county employees who retired after establishment of the VEBA trust ("future retirees") and is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees were to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees were to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 was to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawaii State Teachers Association ("HSTA") implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. Act 106, SLH 2010, amended Act 245, SLH 2005, to provide a final extension of the sunset date to December 31, 2010, to allow for a smoother transition from the HSTA-VEBA trust to the Trust Fund. In September 2010, two participants in the HSTA-VEBA trust and the trustees of the HSTA-VEBA trust ("plaintiffs") filed a purported class action lawsuit seeking, in part, to enjoin the transition from the HSTA-VEBA trust to the Trust Fund. See *Gail Kono, et al. v. Neil Abercrombie, et al*, Civil No. 10-1-1966-09, First Circuit Court, State of Hawaii. On December 7, 2010, the First Circuit Court ("circuit court") denied the plaintiffs' motion for a temporary injunction to enjoin the transition of active employees and retirees from the HSTA-VEBA trust to the Trust Fund. However, the circuit court ruled that the Trust Fund was required to provide the active employees and retirees who transitioned from the HSTA-VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their HSTA-VEBA trust health benefits plans. The circuit court also ruled that approximately \$3.96 million in surplus funds that the HSTA-VEBA trust returned to the State's general fund should be paid by the State to the Trust Fund and used to ensure that active employees and retirees who transitioned from the HSTA-VEBA trust to the Trust Fund can maintain their same standard of coverage benefits as ordered by the circuit court. Based on these rulings, the active employees and retirees in the HSTA-VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. A final judgment was entered on the circuit court's rulings and both the State and plaintiffs have filed appeals. The circuit court's final judgment ordering the State to pay the HSTA-VEBA trust surplus funds to the Trust Fund has been stayed pending the outcome of the appeal.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 was implemented by the employers for fiscal year ending June 30, 2008 and for the County of Kauai for fiscal year ending June 30, 2009. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the State of Hawaii Employer Union Trust Fund ("Trust Fund") July 1, 2011 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's Other Postemployment Benefits ("OPEB"). The Trust Fund Report was prepared by the State's professional actuarial advisors, Aon Hewitt. The Trust Fund Report quantifies the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develops Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2012.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with no prefunding of the ARC and a discount rate of 4%. The Trust Fund Report states that the State's AAL as of July 1, 2011 is \$13,566.8 million, and the corresponding ARC for the fiscal year ending June 30, 2012 would be \$952.6 million. The estimated Trust Fund pay as you go funding amount for fiscal year ending June 30, 2011 was \$268.7 million. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. For the time being, the State expects to continue to fund its OPEB costs on a "pay as you go" basis for the near term.

The Trust Fund Report will be updated every two years.

State Employees' Retirement System

This section contains certain information relating to the Employees' Retirement System of the State of Hawaii (the "System"). The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The State has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at http://ehawaii.gov, and other information about the System are available on the System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more or which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See "—General Information" and "—Actuarial Valuation" herein for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 86th Annual Actuarial Valuation for the Year Ended June 30, 2011 (the "2011 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2011 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in December 2010. As described more fully under "—General Information" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. The new benefit structure does not apply to any employees currently covered by the System. Therefore, the liabilities disclosed in the 2011 Valuation Report prepared by the System's actuary do not yet reflect the impact of the new benefit provisions. However, included in the 2011 Valuation Report are projections showing the long-term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012.

In June 2012, the Governmental Accounting Standards Board (GASB) voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), is effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), is effective for fiscal years beginning after June 15, 2014. GASB 68 will require governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the State Retirement System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

The full impact of GASB 67 and 68 cannot be predicted at this time. However, it is anticipated that these Statements may result in substantial increases in the reported unfunded pension liabilities of most governmental defined benefit pension plans and State governments, including the State of Hawaii.

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. However, the State estimates that its share of the System, based on a percentage of payroll, is approximately 75% with the remaining 25% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, 26.3% are reimbursed from various special funds of the State.

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "Hybrid Plan") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System's actuary completed an Actuarial Experience Study for the five-year period ended June 30, 2010 (the "2010 Experience Study"). In fiscal year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "—Funding Status" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for fiscal year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%.

In fiscal year 2011, the Legislature acted to improve and protect the System's funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System's assets is 100 percent of the System's actuarial accrued liability.

As of March 31, 2010, the contributory plan covered 7,035 active employees or 10.7% of all active members of the System, the noncontributory plan covered approximately 21,268 active employees or 32.3%, and the Hybrid Plan covered 37,587 active members or 57.0%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of June 30, 2011, the System's membership comprised approximately 65,310 active employees, 6,649 inactive vested members and 39,689 pensioners and beneficiaries. The following table shows the number of active members, inactive members and retirees and beneficiaries of the System as of June 30, 2010 and 2011:

Category	**June 30, 2010**	**June 30, 2011**
Active	65,890	65,310
Inactive	6,895	6,649
Retirees and beneficiaries	38,441	39,689
Total	**111,226**	**111,648**

Funded Status

Like most public pension funds in the United States, the System was significantly impacted by the severe downturn in the investment markets during fiscal year 2009. Based on the actuarial valuation as of June 30, 2011, the System's underfunded status has increased significantly because of continued recognition of market investment losses and changes to the actuarial assumptions. However, the System had a partially offsetting liability experience gain which was caused primarily by lower than expected salary increases. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2011 was $8.154 billion. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 19.70% for police and fire employees and 15.00% for all other employees, the future contribution rates established in statute (see "—Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012 the actuary has determined that the remaining amortization period is 25 years. Because this period is less than 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. Section 88-122(e)(1) of the Hawaii Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—Funding Policy" below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. See "PENDING LITIGATION—Employees' Retirement System" in Appendix E attached hereto. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers and firefighters and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers and firefighters and 15.00% for all others employees. As described above, the System's actuary determined that the remaining period required to amortize the UAAL as of June 30, 2010 was 41.3 years, which is greater than the maximum of 30 years specified by HRS Section 88-122(e)(1). As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements will gradually increase as follows:

Employer Contribution effective starting	**Police Officers and Firefighters (% of total payroll)**	**Other Employees (% of total payroll)**
July 1, 2012	22.0	15.5
July 1, 2013	23.0	16.0
July 1, 2014	24.0	16.5
July 1, 2015	25.0	17.0

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increase by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2011.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2011 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions, or (iii) amendments, affects the funding period.

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System as of June 30, 2011 was 11.06% of payroll, which was 9.59% of payroll less than the total contributions required by law (15.52% from employers plus 5.00% in the aggregate from employees). Since only 6.06% of the employers' 15.52% contribution is required to meet the normal cost (5.00% comes from the employee contribution), it is intended that the remaining 9.46% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four year phase in of actual investment return in excess or below of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four–year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year-to-year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88-122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88-122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions, including continuing the investment yield rate of 7.75%, were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. The new assumptions, funding changes and benefit structure are reflected in the 2011 Valuation Report.

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in millions)

June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)–(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)–(a))/(c)
2002	$ 9,415.2	$11,210.2	$1,795.1	84.0%	$2,671.7	67.2%
2003	9,074.0	11,952.1	2,878.1	75.9%	2,826.7	101.8%
2004	8,791.1	12,271.3	3,474.2	71.7%	2,865.1	121.3%
2005	8,914.8	12,986.0	4,071.1	68.6%	3,041.1	133.9%
2006*	9,529.4	14,661.4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%

Source: The 2011 Valuation Report.

* Assumption changes and new Hybrid Plan effective June 30, 2006.
**Figures reflect assumption changes effective June 30, 2011.

The total assets of the System on a market value basis amounted to approximately $8.8 billion as of June 30, 2009, $9.8 billion as of June 30, 2010 and $11.6 billion as of June 30, 2011. Actuarial certification of assets as of June 30, 2009 was $11.4 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2011 actuarial certification of assets was $11.9 billion, and its unfunded actuarial accrued liability was $8.2 billion. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal year 2010 and 2011:

NORMAL COST

	June 30,					
	2011			2010		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	20.29%	9.87%	11.06%	18.80%	11.84%	12.60%
Employee contribution rate	12.20%	4.09%	5.00%	12.20%	6.05%	6.70%
Effective employer normal cost rate	8.09%	5.78%	6.06%	6.60%	5.79%	5.90%

Source: The 2011 Valuation Report.

The following table shows a comparison of the actuarial value of assets ("AVA") to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value of assets, for the last two valuation dates:

	June 30, 2011	**June 30, 2010**
AVA	$11,942.8 million	$11,345.6 million
Market Value of Assets	$11,642.3 million	$9,821.6 million
Market Value as Percentage of AVA	97.5%	86.6%
Funded Ratio (AVA)	59.4%	61.4%
Funded Ratio (Market Value)	57.9%	53.1%

Source: The 2011 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set by the statute (see above) and, accordingly, may be greater or less than the ARC:

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2002	$167,459	$167,459	100.0%
2003	190,586	190,586	100.0%
2004	235,686	235,686	100.0%
2005	328,717	328,717	100.0%
2006*	423,446	423,446	100.0%
2007	476,754	454,494	95.3%
2008	510,727	488,770	95.7%
2009	526,538	578,635	109.9%
2010	536,237	547,613	102.1%
2011	582,535	534,858	91.8%

Source: The 2011 Valuation Report.

* Effective July 1, 2005 the required contributions are based on contribution rates and not specific dollar amounts.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2011:

ASSET ALLOCATION

(as of June 30, 2011)

	Actual Allocation		Target Allocation		
Asset Type	Amount ($mm)	Percentage	Amount ($mm)	Percentage	Allocation Difference
Domestic Equity	$5,530.0	47.8%	$4,050.0	35.0%	12.8%
Non-US Equity	1,990.0	17.2%	2,430.0	21.0%	-3.8%
Fixed Income	2,710.0	23.4%	2,780.0	24.0%	-0.6%
Real Estate	810.0	7.0%	810.0	7.0%	0.0%
Private Equity	380.0	3.3%	580.0	5.0%	-1.7%
Real Return	150.0	1.3%	580.0	5.0%	-3.7%
Other	0.0	0.0%	350.0	3.0%	-3.0%
Total	**$11,600.0**	**100.0%**	**$11,600.0**	**100.0%**	

Source: Valuations provided by Northern Trust – 2011; values unaudited.

See “STATE EMPLOYEES’ RETIREMENT SYSTEM” in Part I of Appendix B for summary of the actuarial certification, employer contribution rate and unfunded accrued liabilities information about the System, including employees of the State and each of its counties.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Fourth Quarter 2012 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at http://www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy below under "State of the Economy", there is a brief description in "Outlook for the Economy" below of the impact of these components on the State's fiscal position. See APPENDIX B—"FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII."

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2012 is 4.6 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2012 State's GDP growth to be 1.6 percent over that of 2011.

State of the Economy

Hawaii's major economic indicators were all positive in the third quarter of 2012. Visitor arrivals and average daily visitor census both increased significantly, and visitor expenditures increased even more. Both government contracts awarded and private building permits increased. In addition, wage and salary jobs, personal income, and State general fund tax revenues all increased in the quarter as compared to the same quarter last year.

Hawaii's tourism sector performed very well in the third quarter of 2012 compared to the same quarter of 2011. The total number of visitors arriving by air to Hawaii increased 8.3 percent in the quarter. Both international and domestic visitor arrivals increased. Due to shorter lengths of stay, the daily visitor census increased 6.9 percent in the quarter. However, since visitors spent more on a daily basis during the third quarter, total visitor spending by air increased 16.0 percent in the quarter.

In construction, both government contracts awarded and the value of private building permits increased. In the third quarter of 2012, government contracts awarded increased $198.8 million; The State Government CIP expenditures increased 32.1 million; the permit value for private construction increased $147.7 million compared to the same quarter of 2011. For the first time since the second quarter of 2008, construction jobs increased in the quarter. According to the most recent data available, current construction put-in-place based on excise tax data increased $237.1 million or 16.4 percent in the second quarter of 2012 compared with the same quarter of 2011.

In the third quarter of 2012, State general fund tax revenues were up $126.1 million or 10.4 percent over the same period of 2011. As an indicator of current economic activity, state general excise tax revenue increased $83.7 million or 12.8 percent in the third quarter of 2012 compared to the same quarter in 2011. For the first three quarters of 2012, State general fund tax revenues increased $441.4 million or 12.5 percent, and state general excise tax revenue increased $193.2 million or 9.9 percent compared with the same period last year.

The labor market conditions also show that the economy is improving. After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the eighth time. In the third quarter of 2012 Hawaii's civilian non-agricultural wage and salary jobs averaged 597,750 jobs, an increase of 11,350 jobs or 1.9 percent from the same quarter of 2011.

Job increase in the third quarter of 2012 was completely due to job increases in the private sector. In this quarter, the private sector added about 11,350 jobs compared to the third quarter of 2011. Job growth mainly occurred in visitor-related industries in the quarter. Food Services and Drinking Places experienced the largest job gains, added 3,450 jobs; followed by Retail Trade (added 1,850 jobs), Accommodation (added 1,800 jobs), Transportation, Warehousing, and Utilities (added 1,350 jobs), and Professional and Business Services (added 950 jobs). Private sector job losses were largest in the Other Services sector (lost 400 jobs). During the third quarter of 2012, jobs in the three levels of government remained the same compared to the same quarter of 2011.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal annualized personal income in the second quarter of 2012 increased $2,085 million or 3.5 percent from the same quarter of 2011. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the second quarter of 2012 was due to increases in all major components of personal income. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors' income. For the first half of 2012, total annualized personal income was $60,485 million, increased 3.2 percent from the same period of 2011.

According to the most recent data available, consumer prices in Honolulu increased 2.8 percent in the first half of 2012 compared with the same period of 2011, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.3 percent in the first half of 2012. In 2011, the Honolulu CPI-U increased 3.7 percent from the previous year.

The higher Honolulu CPI-U in the first half of 2012 was primarily due to relatively large increases in the price index of Food & Beverages (4.5 percent), Education and Communication (4.1 percent), and Medical Care (3.7 percent). The prices for Recreation and Apparel increased 2.6 percent and 2.4 percent, respectively; the prices for Housing, Transportation increased 2.3 percent and 2.1 percent, respectively; and the prices for Other Goods and Services only increased 1.1 percent, compared to the first half of 2011.

Outlook for the Economy

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state, and growth of personal income and tax revenues, Hawaii's economy is expected to continue positive growth for the rest of 2012 and into 2013. Overall, the current DBEDT forecast is more optimistic for most of the economic indicators, especially visitor related indicators, compared with the previous forecast.

Hawaii's economy depends on the conditions in the U.S. economy and key international economies. According to the Blue Chip Economic Consensus Forecast, the U.S. economy is expected to grow at the 2.0 percent range in 2012 and 2013. Labor market conditions continue to improve with unemployment projected to be 8.1 percent for 2012 and 7.8 percent for 2013. Though the Japanese economy is slightly weaker than expected, the exchange rate is still in favorable to Japanese visitors at about 80 yen per dollar.

Federal government visa policies also play an important role in attracting visitors from foreign markets. Since the visa waiver program started in late 2008, Korean visitors had grown by 3 folds from 38,110 in 2008 to 112,567 in 2011. Visa waiver to Taiwaness visitors started on November 2, 2012 is expected to bring more visitors from Taiwan in the coming year. During the first 9 months of 2012, air seats increased 7.4 percent and the last quarter is expected to grow by 12.7 percent, ending the year by 8.7 percent increase. Latest data from Official Airline Guide (OAG) indicates that air seats to Hawaii are scheduled to grow by 4.6 percent during the first half of 2013.

Construction industry showed the sign of recovery in the third quarter of 2012 with 1.4 percent increase in construction jobs during the quarter. Year-to-date through September, the value of private building permits increased by 39.1 percent and the State Capital Improvement Project spending increased 39.2 percent as compared with the same period in 2011.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.6 percent increase in 2012, 0.1 of a percentage point higher than the growth rate forecasted last quarter. Real GDP growth is currently expected to increase to 2.4 percent in 2013, 0.1 of a percentage point higher than the growth rate forecasted last quarter.

Visitor arrivals are expected to increase 9.4 percent in 2012, 0.8 of a percentage point higher than the previous forecast. The forecast for visitor days in 2012 remain unchanged from the previous forecast. The forecast for visitor expenditure in 2012 is revised upward to 18.8 percent, from 15.2 percent growth projected in the previous forecast. For 2013, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 3.9 percent, 3.7 percent, and 5.2 percent, respectively.

The projection for non-agricultural wage and salary job growth rate in 2012 is 1.5 percent, 0.3 of a percentage point above the growth rate of non-agricultural wage and salary job estimated in the previous forecast. In 2013, jobs are projected to increase 2.0 percent, 0.2 of a percentage point higher than the growth rate of non-agricultural wage and salary job estimated in the previous forecast.

The Honolulu Consumer Price Index (CPI), which increased 3.7 percent in 2011, is expected to increase 2.5 percent in 2012, 0.3 of a percentage point below the previous forecast. In 2013, the CPI is projected to increase 2.4 percent, 0.2 of a percentage point below the previous forecast.

Personal income in current dollars is now expected to increase 4.3 percent in 2012, same as the growth rate in the previous forecast. The real personal income is currently projected to grow 1.8 percent in 2012, 0.3 of a percentage point above the previous forecast. In 2013, current-dollar personal income and real personal income are expected to increase 4.8 percent and 2.3 percent, respectively.

Beyond 2013 the economy will be on the expansion path with job growth expected to increase 1.5 percent in 2014 and 2015. Visitor arrivals are expected to increase 2.7 percent in 2014 and 2.6 percent in 2015. Visitor expenditures are expected to increase 5.3 percent in 2014 and 5.1 percent in 2015. Real personal income is projected to increase 2.8 percent in 2014 and 2.6 percent in 2015. Hawaii’s real GDP growth is expected to reach 2.5 percent in 2014 and 2015.

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INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	3rd QUARTER 2011	3rd QUARTER 2012	3rd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2011	YEAR-TO-DATE 2012	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	660,750	643,150	-2.7	661,100	650,850	-1.6
Civilian employed, NSA	614,550	605,250	-1.5	616,450	610,250	-1.0
Civilian unemployed, NSA	46,200	37,900	-18.0	44,650	40,600	-9.1
Unemployment rate, NSA (%) 1/ 2/	7.0	5.9	-1.1	6.8	6.2	-0.6
Total wage and salary jobs, NSA	593,400	604,450	1.9	596,500	604,300	1.3
Total non-agric. wage & salary jobs	586,400	597,750	1.9	589,650	597,450	1.3
Nat. Resources, Mining, Constr.	28,450	28,850	1.4	28,250	28,050	-0.7
Manufacturing	13,250	13,500	1.9	13,200	13,050	-1.1
Wholesale Trade	17,550	17,350	-1.1	17,400	17,350	-0.3
Retail Trade	66,500	68,350	2.8	66,250	67,450	1.8
Transp., Warehousing, Util.	26,800	28,150	5.0	26,850	27,900	3.9
Information	7,650	8,050	5.2	8,300	7,950	-4.2
Financial Activities	27,100	27,900	3.0	26,750	27,600	3.2
Professional & Business Services	74,850	75,800	1.3	74,600	75,400	1.1
Educational Services	14,100	13,950	-1.1	14,350	14,300	-0.3
Health Care & Social Assistance	61,050	61,900	1.4	60,950	61,200	0.4
Arts, Entertainment & Recreation	10,600	10,650	0.5	10,500	10,550	0.5
Accommodation	35,850	37,650	5.0	35,400	37,650	6.4
Food Services & Drinking Places	57,750	61,200	6.0	57,050	59,900	5.0
Other Services	25,750	25,350	-1.6	25,750	25,400	-1.4
Government	119,100	119,100	0.0	124,000	123,650	-0.3
Federal	34,850	34,500	-1.0	34,800	34,550	-0.7
State	65,450	65,700	0.4	70,600	70,550	-0.1
Local	18,800	18,900	0.5	18,600	18,500	-0.5
Agriculture wage and salary jobs	7,000	6,700	-4.3	6,850	6,500	-5.1
State general fund revenues ($1,000)	1,215,241	1,341,313	10.4	3,542,694	3,984,094	12.5
General excise and use tax revenues	655,038	738,753	12.8	1,960,446	2,153,624	9.9
Income-individual	395,424	435,465	10.1	1,097,705	1,218,175	11.0
Declaration estimated taxes	53,153	64,284	20.9	292,713	345,911	18.2
Payment with returns	10,306	12,314	19.5	108,863	112,610	3.4
Withholding tax on wages	359,267	376,979	4.9	1,084,487	1,113,219	2.6
Refunds ('-' indicates relative to State)	-27,302	-18,112	-33.7	(388,358)	(353,565)	-9.0
Transient accommodations tax	79,292	90,860	14.6	235,434	266,391	13.1
Honolulu County Surcharge 3/	51,555	(NA)	(NA)	165,150	(NA)	(NA)
Private Building Permits ($1,000)	537,695	685,394	27.5	1,356,933	1,887,780	39.1
Residential	206,655	(NA)	(NA)	531,821	(NA)	(NA)
Commercial & industrial	80,250	(NA)	(NA)	175,505	(NA)	(NA)
Additions & alterations	250,790	(NA)	(NA)	649,607	(NA)	(NA)
Visitor Days - by air	17,117,927	18,304,087	6.9	50,663,343	55,450,181	9.4
Domestic visitor days - by air	13,165,130	13,632,690	3.6	38,945,214	40,774,662	4.7
International visitor days - by air	3,952,798	4,671,397	18.2	11,718,128	14,675,519	25.2
Visitor arrivals by air - by air	1,872,833	2,027,477	8.3	5,378,483	5,871,025	9.2
Domestic flight visitors - by air	1,335,712	1,388,003	3.9	3,874,735	4,058,063	4.7
International flight visitors - by air	537,121	639,474	19.1	1,503,748	1,812,962	20.6
Hotel occupancy rates (%) 2/	76.0	79.0	3.0	73.7	77.8	4.1
Visitor expend. - arrivals by air ($Mil.)	3,063	3,553	16.0	8,914	10,645	19.4

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.
2/ Change represents absolute change in rates rather than percentage change in rates.
3/ 0.5% added to the general excise tax to pay for O‘ahu‘s mass transit system and took effect January 1, 2007.
Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>, Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>; Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> ; Hospitality Advisors, LLC. and National Agricultural Statistics Service, Hawaii Field Office <http://www.nass.usda.gov/Statistics_by_State/Hawaii/Publications/Archive/>.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2010 TO 2015

Economic Indicators	2010	2011	2012	2013	2014	2015
	(Actual)		(Forecast)			
Total population (thousands)	1,363	1,375	1,389	1,402	1,416	1,431
Visitor arrivals (thousands) 1/	7,018	7,299	7,982	8,291	8,518	8,737
Visitor days (thousands) 1/	65,465	68,495	74,921	77,705	79,855	81,942
Visitor expenditures (million dollars) 1/	11,066	12,255	14,562	15,317	16,122	16,942
Honolulu CPI-U (1982-84=100)	234.9	243.6	249.7	255.7	261.6	267.6
Personal income (million dollars)	55,832	59,014	61,552	64,506	67,860	71,253
Real personal income (millions of 2000$) 2/	41,909	42,706	43,456	44,475	45,735	46,943
Non-agricultural wage & salary jobs (thousands)	586.9	592.1	601.0	613.0	622.2	631.5
Gross domestic product (million dollars)	65,599	66,991	70,105	73,438	76,930	80,588
Real gross domestic product (millions of 2005$)	58,106	57,977	58,905	60,318	61,826	63,372
Gross domestic product deflator (2005=100)	112.9	115.5	119.0	121.8	124.4	127.2
Annual Percentage Change						
Total population	1.2	0.8	1.0	1.0	1.0	1.0
Visitor arrivals 1/	7.7	4.0	9.4	3.9	2.7	2.6
Visitor days 1/	7.6	4.6	9.4	3.7	2.8	2.6
Visitor expenditures 1/	10.7	10.7	18.8	5.2	5.3	5.1
Honolulu CPI-U	2.1	3.7	2.5	2.4	2.3	2.3
Personal income	3.0	5.7	4.3	4.8	5.2	5.0
Real personal income 2/	0.9	1.9	1.8	2.3	2.8	2.6
Non-agricultural wage & salary jobs	-0.8	0.9	1.5	2.0	1.5	1.5
Gross domestic product	2.1	2.1	4.6	4.8	4.8	4.8
Real gross domestic product	1.4	-0.2	1.6	2.4	2.5	2.5
Gross domestic product deflator	0.7	2.3	3.0	2.3	2.2	2.2

1/ Visitors who came to Hawaii by air or by cruise ship.
2/ DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.
Source: Hawaii State Department of Business, Economic Development & Tourism, November 8, 2012.

Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the third quarter of 2012 compared to the third quarter in 2011. Hawaii's unemployment rate decreased to 5.9 percent in the quarter of 2012 as compared to the 7.0 percent in the same quarter last year. For the eighth consecutive quarter since the third quarter of 2010, civilian non-agricultural wage and salary jobs increased. In the third quarter of 2012, non-agricultural wage and salary jobs increased 1.9 percent from the same period last year, a growth rate that has not been seen since the second quarter of 2007.

In the third quarter of 2012, the civilian labor force averaged 643,150 people, decreased 17,600 people or 2.7 percent from the same quarter of 2011. For the first three quarters of 2012, civilian labor force decreased 10,250 people or 1.6 percent from the same period last year.

Civilian employment totaled 605,250 people in the third quarter of 2012, a decrease of 9,300 people or 1.5 percent compared to the same quarter of 2011. This is the third quarterly decrease following eight consecutive quarterly increases from the first quarter of 2010 to the fourth quarter of 2011. For the first three quarters of 2012, average civilian employment decreased 6,200 people or 1.0 percent from the same period last year.

In the third quarter of 2012, the number of civilian unemployed averaged 37,900 people, decreased 8,300 people or 18.0 percent from the same quarter of 2011. For the first three quarters of 2012, the number of unemployed decreased 4,050 people or 9.1 percent from the same period last year. The unemployment rate (not seasonally adjusted) decreased from 7.0 percent in the third quarter of 2011 to 5.9 percent in the third quarter of 2012.

In the third quarter of 2012, Hawaii's civilian non-agricultural wage and salary jobs averaged 597,750 jobs, an increase of 11,350 jobs or 1.9 percent from the same quarter of 2011. This is the eighth consecutive quarterly increase in non-agricultural wage and salary jobs after ten consecutive quarterly decreases in jobs since the third quarter of 2008. For the first three quarters of 2012, average non-agricultural wage and salary jobs increased 1.3 percent or 7.800 jobs from the same period last year.

The job increase in the third quarter of 2012 was completely due to job increases in the private sector. In this quarter, the private sectors added about 11,350 non-agricultural jobs compared to the third quarter of 2011. Job growth mainly occurred in visitor-related industries in the quarter. Food Services and Drinking Places experienced the largest job gains, added 3,450 jobs or 6.0 percent compared to the same quarter of 2011; followed by Retail Trade, added 1,850 jobs or 2.8 percent. Other private sector industries that gained significant number of jobs in the quarter include Accommodation, added 1,800 jobs or 5.0 percent; Transportation, Warehousing, and Utilities, added 1,300 jobs or 5.0 percent, and Professional and Business Services, added 950 jobs or 1.3 percent. In the third quarter of 2012, the Other Services sector lost 400 jobs compared to the same quarter of 2011. In addition, the Wholesale sector lost 200 jobs and the Educational Services sector lost 150 jobs in the quarter.

During the third quarter of 2012, total jobs in the three levels of government remained the same compared to the same quarter of 2011. The Federal Government lost 350 jobs; the State Government added 250 jobs, while Local Government added 100 jobs.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, decreased 11.6 percent in the third quarter of 2012 compared to the same quarter of 2011. For the first three quarters of 2012, the initial liable claims for unemployment decreased 6.5 percent from the same period last year.

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Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT

(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	618,150	0.3	598,200	1.0	3.2
2005	627,100	1.4	609,850	1.9	2.8
2006	633,500	1.0	617,800	1.3	2.5
2007	637,250	0.6	620,100	0.4	2.7
2008	644,050	1.1	617,650	-0.4	4.1
2009	637,950	-0.9	593,850	-3.9	6.9
2010	649,150	1.8	604,500	1.8	6.9
2011	660,700	1.8	616,450	2.0	6.7
2012*	650,850	-1.6	610,250	-1.0	6.2

* First three quarters of 2012.

Source: Hawaii State Department of Labor and Industrial Relations

Income and Prices

Hawaii's total personal income increased during the second quarter of 2012 over the same quarter of 2011, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors' income.

In the second quarter of 2012, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,085 million or 3.5 percent from the second quarter of 2011. For the first half of 2012, total annualized personal income was $60,485 million, increased 3.2 percent from the same period last year.

In the second quarter of 2012, wage and salary disbursements increased $813 million or 2.7 percent from the second quarter of 2011. This was the eighth quarter-over-quarter increase since the third quarter of 2010. For the first half of 2012, wage and salary disbursements increased 2.2 percent from the same period last year.

Supplements to wages and salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased $311 million or 3.2 percent in the second quarter of 2012 from the same quarter of 2011. In the first half of 2012, supplements to wages and salaries increased 2.8 percent from the same period last year.

Proprietors' income increased $152 million or 4.0 percent in the second quarter of 2012 over that of 2011. For the first half of 2012, proprietors' income was up 3.9 percent from the previous year.

Dividends, interest, and rent increased $642 million or 6.0 percent in the second quarter of 2012 from the same quarter of 2011. For the first half of 2012, income in this category was up 6.2 percent from the same period last year.

The annualized personal current transfer receipts grew by $293 million or 3.1 percent in the second quarter of 2012 from the same quarter of 2011. For the first half of 2012, personal current transfer receipts increased 2.9 percent from the same period last year.

Contributions to government social insurance, which is subtracted from total personal income, increased $126 million or 2.9 percent in the second quarter of 2012 compared to the second quarter of 2011. For the first half of 2012, contributions to government social insurance increased 2.5 percent from the same period last year.

In the second quarter of 2012, total non-farm private sector annualized earnings increased $959 million or 3.5 percent from the second quarter of 2011. In dollar terms, the largest increase occurred in accommodation and food services, followed by retail trade, construction, utilities, and management of companies and enterprises; the largest decrease occurred in real estate and rental and leasing.

During the second quarter of 2012, total government earnings increased $318 million or 2.1 percent from the same quarter of 2011. Earnings from the federal government increased $305 million or 3.1 percent in the second quarter of 2012. Earnings from the state and local governments increased only $13 million or 0.2 percent in the quarter.

In the first half of 2012, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 2.8 percent from the same period in 2011, higher than the U.S. average CPI-U increase of 2.3 percent for the same period (Table B-9). The Honolulu CPI-U increase in the first half of 2012 was primarily due to relatively large increase in the price index of Food & Beverages (4.5 percent), Education and Communication (4.1 percent), and Medical Care (3.7 percent). The prices for Recreation and Apparel increased 2.6 percent and 2.4 percent, respectively; the prices for Housing, Transportation increased 2.3 percent and 2.1 percent, respectively; and the prices for Other Goods and Services only increased 1.1 percent, compared to the first half of 2011.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

(In millions of dollars at seasonally adjusted annual rates and percent. As of *QSER September 2003,* according to NAICS classification only)

Series	*Second Quarter 2011*	*First Quarter 2012*	*Second Quarter 2012*	*AnnAver 2009*	*AnnAver 2010*	*AnnAver 2011*	*Percentage change from To Second Quarter 2012 From Second Quarter 2011*	*First Quarter 2012*	*Ann Aver 2011 from 2010*
PERSONAL INCOME	58,790	60,094	60,875	54,194	55,832	59,014	3.5	1.3	5.7
Earnings By Place of Work	43,028	43,796	44,303	40,425	41,546	43,250	3.0	1.2	4.1
Wage and salary disbursements	29,578	30,063	30,391	28,547	28,748	29,733	2.7	1.1	3.4
Supplements to wages and salaries	9,673	9,859	9,984	8,589	9,124	9,739	3.2	1.3	6.7
Emp'er contrib. for emp'ee pension & ins. funds	7,232	7,346	7,446	6,584	6,900	7,283	3.0	1.4	5.6
Employer contributions for gov't social ins.	2,441	2,513	2,538	2,005	2,225	2,455	4.0	1.0	10.4
Proprietors' income	3,777	3,874	3,929	3,289	3,675	3,778	4.0	1.4	2.8
Farm proprietors' income	54	65	82	75	61	52	51.9	26.2	-15.2
Nonfarm proprietors' income	3,723	3,809	3,847	3,214	3,613	3,727	3.3	1.0	3.1
Dividends, interest, and rent	10,630	11,037	11,272	9,790	9,724	10,653	6.0	2.1	9.6
Personal current transfer receipts	9,417	9,629	9,710	8,206	9,047	9,418	3.1	0.8	4.1
State unemployment insurance benefits	477	442	414	547	579	469	-13.2	-6.3	18.9
Personal current transfer receipts exc State U.I.	8,940	9,188	9,296	7,659	8,468	8,948	4.0	1.2	5.7
Less: Contributions for gov't social insurance	4,285	4,369	4,411	4,226	4,485	4,306	2.9	1.0	-4.0
Personal contributions for gov't social insurance	1,844	1,856	1,873	2,222	2,261	1,851	1.6	0.9	18.1
Employer contributions for gov't social insurance	2,441	2,513	2,538	2,005	2,225	2,455	4.0	1.0	10.4
Earnings By Industry	43,028	43,796	44,304	40,424	41,546	43,250	3.0	1.2	4.1
Farm Earnings	290	300	288	263	265	287	-0.7	-4.0	8.5
Nonfarm Earnings	42,738	43,496	44,016	40,161	41,281	42,963	3.0	1.2	4.1
Private earnings	27,419	28,015	28,378	25,907	26,630	27,574	3.5	1.3	3.5
Forestry, fishing, related activities, and other 6/	52	61	64	44	51	55	23.1	4.9	9.4
Mining	36	33	33	34	35	37	-8.3	0.0	5.8
Utilities	416	466	485	363	382	417	16.6	4.1	9.3
Construction	2,986	3,051	3,069	3,016	2,950	2,991	2.8	0.6	1.4
Manufacturing	785	763	769	750	735	775	-2.0	0.8	5.3
Durable goods	283	251	251	272	252	275	-11.3	0.0	9.1
Nondurable goods	502	512	519	478	483	500	3.4	1.4	3.4
Wholesale trade	1,101	1,124	1,149	1,069	1,072	1,101	4.4	2.2	2.7
Retail trade	2,571	2,663	2,714	2,438	2,494	2,580	5.6	1.9	3.5
Transportation and warehousing	1,412	1,446	1,455	1,304	1,350	1,423	3.0	0.6	5.4
Information	616	648	658	676	722	653	6.8	1.5	-9.6
Finance and insurance	1,350	1,373	1,388	1,331	1,324	1,351	2.8	1.1	2.0
Real estate and rental and leasing	1,000	922	953	736	969	990	-4.7	3.4	2.2
Professional and technical services	2,528	2,566	2,583	2,422	2,445	2,506	2.2	0.7	2.5
Management of companies and enterprises	597	652	656	604	589	639	9.9	0.6	8.5
Administrative and waste services	1,771	1,815	1,823	1,646	1,680	1,795	2.9	0.4	6.8
Educational services	675	717	720	649	654	688	6.7	0.4	5.2
Health care and social assistance	4,039	3,968	3,997	3,823	3,945	4,046	-1.0	0.7	2.6
Arts, entertainment, and recreation	448	471	474	483	436	439	5.8	0.6	0.7
Accommodation and food services	3,390	3,613	3,708	2,977	3,188	3,429	9.4	2.6	7.6
Other services, except public administration	1,646	1,662	1,680	1,545	1,611	1,662	2.1	1.1	3.2
Government and government enterprises	15,319	15,481	15,637	14,254	14,651	15,389	2.1	1.0	5.0
Federal	9,936	10,097	10,241	8,786	9,361	9,962	3.1	1.4	6.4
Federal, civilian	3,728	3,794	3,780	3,244	3,543	3,739	1.4	-0.4	5.5
Military	6,208	6,303	6,461	5,543	5,818	6,224	4.1	2.5	7.0
State and local	5,383	5,384	5,396	5,468	5,290	5,427	0.2	0.2	2.6

1/ 2009Q1 through 2012Q1 revised on September 25, 2012.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, September 25, 2012 <http://www.bea.doc.gov/bea/regional/sqpi/>.

Table 5

PERSONAL INCOME
(In millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,399	1.0
1997	31,372	3.2
1998	32,259	2.8
1999	33,244	3.1
2000	35,222	5.9
2001	35,936	2.0
2002	37,475	4.3
2003	39,032	4.2
2004	42,285	8.3
2005	45,332	7.2
2006	49,124	8.4
2007	52,556	7.0
2008	55,314	5.2
2009	54,194	-2.0
2010	55,832	3.0
2011	59,014	5.7
2012*	60,485	3.2

* First half of 2012; percentage change is between first half of 2011 and first half of 2012.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Table 6

HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)
[1982-84=100. Data are not seasonally adjusted]

		Honolulu								
Period	***U.S.***	*All Items*	*Food & Beverages*	*Housing*	*Apparel*	*Transpor-tation*	*Medical Care*	*Recre-ation 1/*	*Educ. & Comm. 1/*	*Other Goods & Services*
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2011H1	223.599	241.902	230.565	258.121	119.380	228.484	321.891	110.544	130.444	435.239
H2	226.280	245.342	234.747	263.092	117.408	229.962	326.468	110.401	134.052	431.834
2012H1	228.850	248.646	241.047	263.954	122.187	233.236	333.781	113.396	135.804	440.182
Percentage Change from the Same Period in Previous Year										
2001	2.8	1.2	2.9	0.7	-2.4	2.9	2/	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	2/	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	2/	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	2/	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	2/	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	2/	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	2/	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	2/	2.6	2.8	5.2
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2011H1	2.8	3.5	2.6	2.9	2.4	6.8	0.2	3.7	3.6	7.0
H2	3.5	4.0	4.4	4.0	1.0	7.0	2.3	1.9	2.3	1.8
2012H1	2.3	2.8	4.5	2.3	2.4	2.1	3.7	2.6	4.1	1.1

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed August 15, 2012.

Tourism

After a strong growth in the first two quarters of 2012, Hawaii's tourism sector continued the strong growth in the third quarter of 2012. Both domestic and international visitor arrivals, especially international visitor arrivals increased in the quarter compared with the same quarter in 2011. Due to shorter lengths of stay, the increase in daily visitor census was lower than the increase in visitor arrivals. However, since visitors spent more on a daily basis during the third quarter, total visitor spending increased significantly higher than the increase in visitor arrivals in the quarter. For the economy, visitor spending is more important than visitor arrivals.

The total number of visitors arriving by air to Hawaii increased 154,644 or 8.3 percent in the third quarter of 2012 compared to the same quarter of 2011. The total average daily census was up 12,893 or 6.9 percent in the quarter. For the first three quarters of 2012, total visitor arrivals by air increased 492,542 or 9.2 percent, while average daily census increased 50,298 or 9.0 percent from the same period last year.

Following a negative 1.2 percent growth in the third quarter last year, in the third quarter of 2012, total visitor arrivals on domestic flights increased 52,291 or 3.9 percent compared to the same quarter of 2011. For the first three quarters of 2012, domestic arrivals were up 183,328 or 4.7 percent from the same period last year.

After a positive 6.2 percent growth in the third quarter last year, arrivals on international flights increased a very strong 102,353 or 19.1 percent in the third quarter of 2012 compared to the third quarter of 2011. For the first three quarters of 2012, international arrivals were up 309,214 or 20.6 percent from the same period last year.

In terms of major market areas, from the third quarter of 2011 to the same period of 2012, arrivals from the U.S. West increased 38,692 or 4.8 percent; arrivals from the U.S. East increased 10,689 or 2.6 percent; and arrivals from Japan increased 52.747 or 14.2 percent. For the first three quarters of 2012, arrivals from U.S. West were up 121,089 or 5.4 percent; arrivals from the U.S. East were up 46,621 or 3.7 percent; and Japanese arrivals were up 146,251 or 15.9 percent from the same period last year.

Because of shorter lengths of stay, the average total daily visitor census increased less than the increase in visitor arrivals. The total average daily visitor census was up 6.9 percent or 12,893 visitors per day in the third quarter of 2012 over the same quarter of 2011. Domestic average daily census increased 3.6 percent or 5,082 visitors per day, while international average daily census increased 18.2 percent or 7,811 visitors per day. In the first three quarters of 2012, domestic average daily census increased 18,435 or 4.3 percent; international average daily census increased 31,863 or 24.7 percent from the same period last year.

Nominal visitor expenditures by air totaled $3,552.6 million in the third quarter of 2012, up 16.0 percent or $489.5 million from the same quarter of 2011. For the first three quarters of 2012, visitor expenditures increased $1,731.0 million or 19.4 percent from the same period last year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 12.6 percent or 302,887 seats in the third quarter of 2012; domestic seats increased 10.1 percent or 172,578 seats; international seats increased 18.8 percent or 130,309 seats, compared to the same quarter of 2011. For the first three quarters of 2012, the number of total available seats increased 7.5 percent or 528,136 seats from the same period last year.

According to the most recent data available, in the third quarter of 2012, statewide hotel occupancy rate averaged 79.0 percent, up 3.0 percentage points from the same quarter of 2011. For the first three quarters of 2012, statewide hotel occupancy rate averaged 77.8 percent, up 4.0 percentage points from the same period last year.

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Table 7

VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2008	2009	2010	2011	% Change 2008-2009	% Change 2009-2010	% Change 2010-2011
Total Arrivals							
Total	6,713,436	6,420,448	6,916,894	7,174,397	-4.4	7.7	3.7
Domestic	4,901,893	4,672,001	4,957,352	5,127,291	-4.7	6.1	3.4
International	1,811,543	1,748,447	1,959,542	2,047,106	-3.5	12.1	4.5
Average Length of Stay							
Total	9.4	9.4	9.4	9.5	0.1	0.1	0.7
Domestic	10.1	10.1	10.0	10.1	0.2	-0.4	0.7
International	7.5	7.5	7.7	7.8	0.1	3.0	0.9
Visitor Days							
Total	62,957,646	60,255,061	64,951,433	67,825,871	-4.3	7.8	4.4
Domestic	49,362,111	47,121,337	49,788,583	51,839,799	-4.5	5.7	4.1
International	13,595,535	13,133,724	15,162,850	15,986,073	-3.4	15.4	5.4
Average Daily Census							
Total	172,487	165,082	177,949	185,824	-4.3	7.8	4.4
Domestic	135,239	129,100	136,407	142,027	-4.5	5.7	4.1
International	37,248	35,983	41,542	43,797	-3.4	15.4	5.4

Source: Hawaii Tourism Authority.

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	***Annual Average***
In Percent					
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011 1/	76.6	68.6	76.0	72.2	73.4
2012 1/	80.4	73.9	79.0	Year-to-Date	77.8

The 2nd, 3rd, and 4th Quarter averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995. The 1st quarter and Annual are as released or revised.

1/ Source revises each month of previous year when current year is released.

Source: Hawaii State Department of Business, Economic Development & Tourism, PKF-Hawaii and Hospitality Advisors LLC.

Construction and Real Estate

The indicators of Hawaii's construction industry were all positive in the third quarter of 2012. The government contracts awarded, the State Government CIP expenditures, and the value of private building authorizations all increased. Construction jobs also increased for the first time since the second quarter of 2008.

Construction was one of the major contributors to job growth in Hawaii prior to 2008. From 2002 to 2007, construction job growth averaged 8.0 percent per year. In the fourth quarter of 2007, the average construction job reached a peak of 40,000 jobs. Since the second quarter of 2008; however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters until the third quarter of 2012. In the third quarter of 2012, the construction sector added 400 jobs or 1.4 percent compared with the same quarter of 2011. For the first three quarters of 2012, construction jobs decreased 0.7 percent or 200 jobs from the same period last year.

In the third quarter of 2012, the private building authorizations in Honolulu increased $88.0 million or 25.0 percent compared with the third quarter of 2011. In the first three quarters of 2012, private building authorizations in Honolulu increased $275.1 million or 29.7 percent compared with the same period last year.

In the third quarter of 2012, the private building authorizations in the Hawaii County increased $33.0 million or 33.7 percent compared with the third quarter of 2011. In the first three quarters of 2012, private building authorizations in the Hawaii County increased $78.2 million or 33.4 percent compared with the same period last year.

In the third quarter of 2012, the private building authorizations in Maui increased $8.9 million or 11.6 percent compared with the third quarter of 2011. In the first three quarters of 2012, private building authorizations in Maui increased $159.8 million or 106.9 percent compared with the same period last year.

In the third quarter of 2012, the private building authorizations in Kauai increased $17.9 million or 150.8 percent compared with the third quarter of 2011. In the first three quarters of 2012, private building authorizations in Kauai increased $17.7 million or 38.9 percent compared with the same period last year.

Government contracts awarded increased $198.8 million or 159.6 percent in the third quarter of 2012 compared to the same quarter of 2011. In the first three quarters of 2012, government contracts awarded increased $412.3 million or 156.8 percent compared with the same period last year. State Government CIP expenditures increased $32.1 million or 14.4 percent in the quarter. Year-to-date, CIP expenditures increased $244.8 million or 32.9 percent from the same period last year.

According to the most recent data available, the Honolulu Construction Cost Indexes increased 2.8 percent for Single Family Residence and increased 3.1 percent for High-Rise Building in the third quarter of 2012 over that of 2011.

In the third quarter of 2012, Honolulu's median price for single family resales was $625,000, increased $5,000 or 0.8 percent from the previous quarter; the median price for condominium units was $320,000, increased $15,000 or 4.9 percent from the previous quarter. In the third quarter of 2012, the number of single-family unit resales was up 9.5 percent, and the number of condominium unit resales was up 15.1 percent from the third quarter of 2011. In the first three quarters of 2012, the number of single-family unit resales was up 5.3 percent, and the number of condominium unit resales was up 5.2 percent compared with the same period last year.

In the third quarter of 2012, single-family unit resales decreased 0.9 percent, and condominium unit resales decreased 8.6 percent in Maui County compared to the same quarter of 2011.

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Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(In millions of dollars)

		Private Building Authorization 2/				Government
Year	*Contracting tax base 1/*	*Total Private Authorizations*	*Residential 2/*	*Commercial & Industrial 3/*	*Additions & Alterations*	*Contracts Awarded*
In Millions of Dollars						
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 2/	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003 2/	4,536.3	2,361.2	1,345.1	507.5	508.6	633.4
2004 2/	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 2/	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
2006 2/	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 2/	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008 2/	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009 2/	6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010 2/	5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011 2/	5,837.4	1,858.8	687.9	285.9	884.9	430.7
2011 2/ 1 Qtr.	1,382.9	380.9	146.8	48.1	186.1	75.4
2/ 2 Qtr.	1,443.6	438.4	178.4	47.2	212.7	63.0
2/ 3 Qtr.	1,468.2	537.7	206.7	80.2	250.8	124.5
2/ 4 Qtr.	1,542.7	501.8	156.1	110.4	235.3	167.7
2012 2/ 1 Qtr.	1,561.4	556.7	145.3	61.5	349.9	71.4
2/ 4/ 2 Qtr.	1,680.8	645.7	(NA)	(NA)	(NA)	280.6
2/ 4/ 3 Qtr.	(NA)	685.4	(NA)	(NA)	(NA)	323.3
Percentage Change from the Same Period in Previous Year						
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002 2/	13.5	11.7	26.1	-22.8	8.2	7.3
2003 2/	6.1	33.3	20.9	99.7	25.6	-17.6
2004 2/	8.5	15.5	31.4	-40.2	28.9	118.6
2005 2/	22.4	28.1	27.8	43.0	21.9	-47.6
2006 2/	19.9	8.0	-19.8	68.8	53.4	17.8
2007 2/	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008 2/	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009 2/	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010 2/	-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011 2/	4.4	-6.1	-11.7	-24.3	7.4	-59.3
2011 2/ 1 Qtr.	-3.1	-16.4	-37.7	-9.5	11.5	-9.2
2/ 2 Qtr.	10.9	-18.4	-3.5	-61.8	-7.1	-82.2
2/ 3 Qtr.	-1.3	-2.7	5.3	-4.8	-7.7	-64.7
2/ 4 Qtr.	12.3	15.3	-3.9	-5.3	50.6	-37.4
2012 2/ 1 Qtr.	12.9	46.2	-1.0	27.9	88.1	-5.3
2/ 4/ 2 Qtr.	16.4	47.3	(NA)	(NA)	(NA)	345.3
2/ 4/ 3 Qtr.	(NA)	27.5	(NA)	(NA)	(NA)	159.6

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2/ Beginning in 2002 Kauai data available for residential only.

3/ Includes hotels.

4/ Hawaii County authorizations detail not strictly comparable to previous periods.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry*.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	*State*	*City & County of Honolulu*	*Hawaii County*	*Kauai County*	*Maui County*
In Thousands of Dollars					
1/ 2000	1,512,601	694,223	321,704	141,313	355,360
2/ 2001	1,585,739	682,660	380,249	210,094	312,737
2/ 2002	1,772,027	876,049	449,601	172,660	273,716
2/ 2003	2,361,233	1,109,568	629,147	153,242	469,277
2/ 2004	2,726,536	1,320,552	826,494	130,659	448,831
2/ 2005	3,491,964	1,364,030	1,008,386	288,132	831,416
2/ 2006	3,770,051	1,625,328	926,019	239,294	979,412
2/ 2007	3,585,447	1,676,232	912,529	268,915	727,772
2/ 2008	2,906,578	1,481,272	704,317	277,149	443,840
2/ 2009	1,998,908	1,247,196	309,165	218,111	224,437
2/ 2010	1,980,296	1,357,314	360,328	68,047	194,607
2/ 2011	1,858,763	1,272,923	282,638	59,520	243,683
2/ 2011 1 Qtr.	380,874	262,764	66,539	17,222	34,348
2/ 2 Qtr.	438,364	313,380	69,836	16,353	38,795
2/ 3 Qtr.	537,695	351,662	97,829	11,838	76,366
2/ 4 Qtr.	501,830	345,117	48,433	14,107	94,174
2/ 2012 1 Qtr.	556,688	318,047	68,366	14,463	155,812
2/ 3/ 2 Qtr.	645,699	445,237	113,253	18,931	68,278
2/ 3/ 3 Qtr.	685,394	439,663	130,793	29,694	85,243
Percentage Change From The Same Period in Previous Year					
2001	4.8	-1.7	18.2	48.7	-12.0
2/ 2002	11.7	28.3	18.2	28.6	-12.5
2/ 2003	33.3	26.7	39.9	-11.2	71.4
2/ 2004	15.5	19.0	31.4	-14.7	-4.4
2/ 2005	28.1	3.3	22.0	120.5	85.2
2/ 2006	8.0	19.2	-8.2	-16.9	17.8
2/ 2007	-4.9	3.1	-1.5	12.4	-25.7
2/ 2008	-18.9	-11.6	-22.8	3.1	-39.0
2/ 2009	-31.2	-15.8	-56.1	-21.3	-49.4
2/ 2010	-0.9	8.8	16.5	-68.8	-13.3
2/ 2011	-6.1	-6.2	-21.6	-12.5	25.2
2/ 2011 1 Qtr.	-16.4	-13.3	-32.7	4.6	-7.5
2/ 2 Qtr.	-18.4	-15.5	-30.2	29.8	-27.7
2/ 3 Qtr.	-2.7	-12.3	27.2	-45.3	44.2
2/ 4 Qtr.	15.3	22.2	-42.7	-18.5	85.1
2/ 2012 1 Qtr.	46.2	21.0	2.7	-16.0	353.6
2/ 3/ 2 Qtr.	47.3	42.1	62.2	15.8	76.0
2/ 3/ 3 Qtr.	27.5	25.0	33.7	150.8	11.6

1/ Kauai County data for November consist of residential data only.

2/ Beginning with 2002, Kauai data available for residential only. Values shown for 2001 are all private authorizations however, percentage change 2001-2002 is based on residential only or 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253

3/ State and Hawaii County are preliminary as Hawaii County authorizations detail not strictly comparable to previous periods.

Source: County building departments.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. In 2011, total federal government compensation of employees in Hawaii reached $9.6 billion, an increase of 2.7 percent from 2010. Federal government compensation of employees in Hawaii accounted for about 24.7 percent of total compensation of employees in 2011. Between 2000 and 2011, the annual average growth rate for federal government compensation of employees in Hawaii was 7.0 percent. Federal military accounted for 62.6 percent of the total Federal compensation in 2011. According to the most recent data available, federal government accounted for about 15.4 percent of State GDP in Hawaii in 2010, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the first half of 2012 increased 2.7 percent compared to the same period of 2011. For the whole year of 2011, total earnings of federal government personnel increased 6.4 percent from the previous year. In

2011, total military earnings and total federal civilian earnings accounted for about 23.0 percent of total earnings in Hawaii.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit.

Banks and Other Financial Institutions

As of December 31, 2011, total assets of all State chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $34.55 billion, a 4.44% increase from December 31, 2010. The five State chartered banks accounted for $34.06 billion of such assets.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2008, 2009, 2010 and 2011 amounted to 21.1 million short tons, 18.3 million short tons, 17.7 million short tons and 17.8 million short tons, respectively.

The Harbors System is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, and Kalaeloa Barbers Point Harbor on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System previously managed Kewalo Basin for its landowner, the Hawaii Community Development Authority ("HCDA"). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System ceased on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter island ports. The number of commercial vessels entering all ports was 11,005 in fiscal year 2008, 10,033 in fiscal year 2009, 7,832 in fiscal year 2010 and 8,490 in fiscal year 2011. The U.S. military moves most of its cargo through the State's Harbors System.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 10.1 million short tons in fiscal year 2008, 8.9 million short tons in fiscal year 2009, 8.9 million short tons in fiscal year 2010 and 8.9 million short tons in 2011. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million. ATDC's failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director-Harbors currently serves as the Chief Executive Officer for the ATDC. The modernization projects have been integrated into the administration's New Day Work Projects, a capital improvements program comprised of priority public works projects deemed critical to create jobs and jumpstart the economy.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February 2009 at HNL. HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

In fiscal year 2012, total passenger count increased from 30,590,527 to 31,272,157 due to increased tourism traffic derived from both domestic and overseas passengers. Aircraft operations slightly decreased to 888,102 from 891,862, in fiscal year 2012 and 2011, respectively, due to increased load factors and use of larger aircraft. The increases are indications of continued economic recovery as airport concession revenues are improving as well.

The Airports Division maintained its financial position by increasing airlines rates and charges, revising concession lease rent agreements and recently refinancing/restructuring $300 million in bonds outstanding which provided over $27 million in present-value savings and reduced annual debt service payments by up to $19.6 million each year through 2020,

The Airports Division's modernization program is under way and includes significant capital improvements such as expanding the Honolulu inter-island terminal, constructing consolidated car rental facilities at its major airports and installing energy saving equipment and devices statewide. The program is currently estimated to cost $1.4 billion through 2017 and is expected to be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,287.5 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.6 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 949 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The City and County of Honolulu is proceeding with plans for a new $5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along Oahu's east-west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project is expected to be funded with the City and County of Honolulu surcharge of ½ of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal monies. Construction and operation of this System is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2011.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2002	792,482	62	2,814	171,813	20,427	25,996	1,013,594
2003	830,672	47	2,588	175,517	22,019	26,780	1,057,623
2004	867,120	44	2,510	179,592	20,746	28,435	1,098,447
2005	906,799	47	2,472	185,646	24,874	29,565	1,149,403
2006	907,659	46	2,349	191,230	26,024	31,789	1,157,027
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,446	31,601	1,151,691
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370

Source: Summary of Registered Vehicles, Various Years, Department of Information Technology, City & County of Honolulu.

Education

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the States operates a statewide public school system for colleges and universities. In the 2012-2013 school year, system enrollment increased from a total of 181,213 in the 2011-2012 school year to a projected total of 183,097 in 286 K-12 public schools (includes 31 charter schools). The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in both Department of Education schools and charter schools has increased.

The University of Hawaii was established in 1907 on the model of the American system of land grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

(i) a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law, and a medical school and new cancer research center (scheduled completion in early 2013) at Kakaako in downtown Honolulu;

(ii) a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees; a College of Pharmacy with a four-year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007;

(iii) a baccalaureate institution at West Oahu, offering degrees in the liberal arts and professional studies; and

(iv) a system of seven open door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2012, 60,295 students attended the University of Hawaii System, 20,426 of them on the Manoa campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low income families. Included are the management of low rent public housing units, the administration of the Section 8 tenant based housing assistance program and other federal and State programs intended to provide very low to low income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

(commences on page B-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE

STATE OF HAWAII AS OF JUNE 30, 2011 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-21)

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

The statistical information presented by this Part I of Appendix B is the most current such information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INFORMATION ABOUT INDEBTEDNESS

The following tables set forth the State's total indebtedness as of July 1, 2012, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit. See "DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit" in Appendix A.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2012

General obligation bonds outstanding		$ 5,408,280,000
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 16,265,019	
Harbors	34,611,954	
University of Hawaii	881,231	
Parking facilities	78,638	
Hawaiian Home Lands	167,393	
Subtotal excludable reimbursable general obligation bonds	$ 52,004,235	
Less all general obligation bonds maturing in the current year	$ 266,724,808	$ 318,729,043
Net general obligation bonds outstanding		$ 5,089,550,957

Footnotes on following page.

REVENUE BOND INDEBTEDNESS [2]

As of July 1, 2012

Revenue bonds outstanding:		
Airports:		
Airports system	$ 918,030,000	
Airports special facility	31,005,000	$ 949,035,000
Housing:		
Single family mortgage purchase	182,790,000	
Multifamily	257,708,789	440,498,789
Harbors:		
Revenue		367,905,000
Highway:		
Revenue		409,350,000
University of Hawaii:		
Revenue		622,910,000
Hawaiian Home Lands		40,525,000
Health Systems		8,000,000
Total revenue bonds outstanding		$ 2,838,223,789

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]

As of July 1, 2012

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 677,215,000
Utilities serving the general public	679,400,000
Industrial enterprises	12,312,500
Not-for-profit secondary schools, colleges and university serving the general public	28,165,000
Total special purpose revenue bonds outstanding	$ 1,397,092,500

[1] See "DEBT STRUCTURE—Exclusions" and "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for exclusions and sources of reimbursement.

[2] All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system, which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax, and except for a portion of the revenue bonds issued for the University of Hawaii, which is payable from both the revenues of the University derived from tuition, fees and charges and from tobacco settlement funds.

[3] All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.

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The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2012

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR THE PRECEDING THREE FISCAL YEARS	**2009-2010**	**2010-2011**	**2011-2012**
Total General Fund revenues exclusive of Grants from the federal government	$4,852,381,367	$5,116,908,466	$5,660,629,181
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	11,186,709	14,262,183	11,828,531
Net General Fund revenues	$4,841,194,658	$5,102,646,283	$5,648,800,650
Sum of net General Fund revenues for preceding three fiscal years	$15,592,641,591		
Average of preceding three fiscal years	$5,197,547,197		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2010, 2011 and 2012	$961,546,231		

[1]The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2012, and on the Bonds, after exclusions permitted by the Constitution, is $667,040,922 in the fiscal year ending June 30, 2014.

NOTE: This Summary Statement is based on the July 1, 2012 statement of indebtedness. See "DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit" in Appendix A.

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GENERAL OBLIGATION BONDS OUTSTANDING
AS OF JULY 1, 2012

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 16,265,019		
Commercial Harbors	$ 34,611,954		
Small Boat Harbors [2]	$ 3,157,688		
Hawaiian Home Lands	$ 167,393		
University of Hawaii	$ 881,231		
Parking Facilities	$ 78,638		
Waiahole Water System [2]	$ 6,855,003		
Convention Center [2]	$ 246,650,289		
Total for Special Funds	$ 308,667,215		
Total Reimbursable General Obligation Bonds		$ 308,667,215	5.71%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$ 5,099,612,785		
Total Non-reimbursable General Obligation Bonds........		$ 5,099,612,785	94.29%
Total General Obligation Bonds Issued and Outstanding..		$ 5,408,280,000	100%

[1] See "DEBT STRUCTURE - Reimbursement to State General Fund for Debt Service" in Appendix A concerning sources of reimbursement, including taxes. The figures in this table should not be taken as an indication that in all instances the reimbursement to the General Fund will in fact be made or that such reimbursement will be made in whole.

[2] Not excludable for debt limit purposes.

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SUMMARY OF DEBT SERVICE

As of October 1, 2012

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of October 1, 2012, including the Refunded Bonds, as well as debt service payable on the Bonds as of the expected date of delivery thereof. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

							Debt Service on Series EE, EF and EG[3]			
Fiscal Year Ending June 30	Total Remaining Principal Amount[1]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[2]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Less: Refunded Bond Debt Service[4]	Total Debt Service[5]
2013	$5,337,560,000	$201,630,000	$194,210,672	$395,840,672	$31,641,824	$364,198,848	$ 0	$16,552,901	$10,802,728	$369,949,021
2014	5,135,930,000	432,315,000	242,344,914	674,659,914	35,014,625	639,645,289	0	40,537,716	21,605,455	658,577,550
2015	4,703,615,000	413,960,000	223,886,285	637,846,285	34,709,422	603,136,863	0	40,537,716	21,605,455	622,069,124
2016	4,289,655,000	408,405,000	203,224,507	611,629,507	33,124,055	578,505,452	0	40,537,716	21,605,455	597,437,713
2017	3,881,250,000	428,200,000	183,408,823	611,608,823	32,728,343	578,880,480	0	40,537,716	21,605,455	597,812,741
2018	3,453,050,000	419,750,000	163,388,649	583,138,649	31,485,094	551,653,555	61,870,000	39,177,041	93,476,168	559,224,428
2019	3,033,300,000	372,820,000	144,715,366	517,535,366	30,417,121	487,118,245	64,810,000	36,233,989	69,293,675	518,868,559
2020	2,660,480,000	311,960,000	127,293,807	439,253,807	30,417,931	408,835,876	68,020,000	33,022,196	60,658,736	449,219,336
2021	2,348,520,000	262,130,000	113,194,784	375,324,784	30,420,401	344,904,383	71,365,000	29,675,389	60,660,661	385,284,111
2022	2,086,390,000	277,305,000	100,344,300	377,649,300	30,417,896	347,231,404	74,925,000	26,119,626	60,657,461	387,618,569
2023	1,809,085,000	271,955,000	87,158,813	359,113,813	30,417,213	328,696,600	78,650,000	22,391,094	60,657,721	369,079,973
2024	1,537,130,000	276,700,000	73,881,232	350,581,232	30,417,893	320,163,339	82,580,000	18,458,050	60,660,850	360,540,539
2025	1,260,430,000	248,375,000	61,067,820	309,442,820	30,422,683	279,020,137	86,740,000	14,302,624	60,659,547	319,403,214
2026	1,012,055,000	237,005,000	49,174,104	286,179,104	30,424,388	255,754,716	29,370,000	11,473,941	0	296,598,657
2027	775,050,000	198,125,000	37,639,204	235,764,204	28,145,958	207,618,246	30,840,000	10,004,595	0	248,462,841
2028	576,925,000	177,390,000	27,489,433	204,879,433	1,365,184	203,514,249	32,385,000	8,455,614	0	244,354,863
2029	399,535,000	153,530,000	18,353,370	171,883,370	428,556	171,454,814	34,015,000	6,826,628	0	212,296,442
2030	246,005,000	108,195,000	10,619,763	118,814,763	429,270	118,385,493	35,725,000	5,117,076	0	159,227,569
2031	137,810,000	67,260,000	4,988,675	72,248,675	430,068	71,818,607	37,160,000	3,680,996	0	112,659,603
2032	70,550,000	70,550,000	1,699,725	72,249,725	430,933	71,818,792	38,485,000	2,357,857	0	112,661,649
2033	0	0	0	0	431,788	-431,788	40,050,000	797,231	0	40,415,443

[1] Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of October 1, 2012.

[2] These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $31,641,824 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2013, only $4,558,705 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for the sources of reimbursement, including taxes.

[3] As of the expected date of delivery thereof.

[4] Reflects debt service payable on the Refunded Bonds.

[5] Approximate. Reflects bond debt service on all outstanding general obligation bonded indebtedness of the State of Hawaii as of October 1, 2012, plus debt service on the Bonds as of their expected date of delivery, taking into account the refunding of the Refunded Bonds.

BONDED DEBT PER CAPITA
(Amounts in thousands except "Debt Per Capita")

Fiscal Year	Population [1]	General Obligation Bonded Debt [2&3]	Less Debt Service Moneys Available [2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2007	1,299	$ 4,079,714	$ 21,704	$ 4,058,010	$ 3,124
2008	1,292	$ 4,408,572	$ 22,002	$ 4,386,570	$ 3,395
2009	1,298	$ 4,779,666	$ 68	$ 4,779,598	$ 3,682
2010	1,300	$ 5,157,198	$ 118	$ 5,157,080	$ 3,967
2011	1,375	$ 4,987,544	$ 109	$ 4,987,435	$ 3,627

[1] Source: Hawaii State Department of Business, Economic Development and Tourism.
[2] Source: Hawaii State Department of Accounting and General Services, Accounting Division.
[3] Excludes Enterprise Funds and Component Unit University of Hawaii General Obligation Bonds.

Certificates of Participation

In November 1998, the State executed a Lease Agreement (the "Kapolei Lease") related to the issuance of $54,850,000 in certificates of participation, the proceeds of which were used to purchase a state office building in Kapolei (the "Kapolei COPs"); in December 2000, the State executed a second Lease Purchase Agreement (the "Capitol District Lease") for the issuance of $23,140,000 in certificates of participation, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu (the "Capitol District COPs"). Certificates of participation in the aggregate principal amount of $41,120,000 were issued in November 2009 for the purpose of refunding all Kapolei Certificates and Capitol District Certificates, and such certificates of participation are payable from the lease payments owed by the State under the Kapolei Lease and the Capitol District Lease.

In December 2006, the State executed a Facility Lease Agreement related to the issuance of $24,500,000 of Certificates of Participation (the "Hawaiian Homeland COPs"), the proceeds of which were used to construct a headquarters office and conference center building for the Department of Hawaiian Homelands in Kapolei. Each building is located on the island of Oahu. The Kapolei COPs, Capital District COPs and Hawaiian Homeland COPs (collectively, the "COPs") are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPs do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

The State does not anticipate that it will issue certificates of participation other than the certificates of participation referenced in the preceding sentence during the current fiscal year, and would require legislative authorization to do so.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The objectives of the investment policies of the State's cash management program are: (a) Safety: To safeguard State funds and require full collateralization of State deposits; (b) Liquidity: To ensure the availability of funds to meet State expenditures by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk in principal; and (c) Yield: To maximize interest earnings on State investments of funds in excess of immediate needs.

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities prescribed in Section 36-21, HRS. The securities in which State funds may currently be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest; (b) certain U.S. Government-Sponsored Enterprises (GSE); (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; (f) commercial paper with at least an A1/P1 rating; (g) bankers' acceptances with at least an A1/P1 rating; (h) money market mutual funds that are rated AAA or its equivalent by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization; and (i) securities of a mutual fund whose portfolio is limited to securities issued or guaranteed by the full faith and credit of the United States. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

In the investment of State funds, it is the policy of the State to give due regard to depositories doing business within the State of Hawaii. This policy takes into account the beneficial effects to the State of using local depositories. Deposits are allocated among local financial institutions based upon the yield offered on investments and their ability to fully collateralize such investments.

As of September 30, 2012, 14% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 43% consisted of time certificates with banks, 32% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 8% consisted of student loan resource securities (which are auction rate securities), and 3% consisted of cash in bank accounts. In view of its conservative investment policies, the State anticipates that it will not need to sell its student loan resource securities at a discount, and that it will receive par for such securities upon their respective redemptions or stated maturities. On November 23, 2010, the State and Citigroup Global Markets, Inc. (CGMI) entered into a Settlement Agreement whereby in June, 2015, the State will have the option to require CGMI to purchase some or all of its outstanding student loan auction rate securities at par as well as to require CGMI to pay the State the difference between the liquidation price and par for any securities involuntarily liquidated below par.

Safety of Public Funds

All State funds deposited with financial institutions are deemed, under State law, to be deposited in the State Treasury. Except for that portion of any deposit which is insured by an agency of the federal government, e.g., the Federal Deposit Insurance Corporation ("FDIC"), all deposits of State funds must be collateralized by the depository with securities deposited with the Director of Finance, valued at least equal to par, or market value but not to exceed par, or 95% of market value but not to exceed par, depending on the securities pledged, as provided in Section 38-3, HRS.

With respect to the types of securities pledged as collateral, Section 38-3, HRS, requires such securities to be evidences of indebtedness of the State or its counties or agencies thereof, of certain county improvement districts or frontage improvement, of the United States or certain agencies thereof, the State warrants or warrant notes direct obligations of other states or city or county in the continental United States, certificates of deposit issued through the Certificate of Deposit Account Registry Service and other assets of the depository eligible to secure advances from the Federal Reserve Banks. The State will not accept, as collateral, derivative products or other securities that move inversely to the general level of interest rates.

The collateral pledged by depositories is monitored by the Director of Finance on a computerized system, which determines the adequacy of the amount of collateral pledged by depositories on a daily basis.

Investment Yield

Cash positions of State moneys in depositories are reviewed at the beginning of each work day. A determination is made as to the amount of moneys needed to meet payment of State obligations, e.g., payroll, debt service, vendor and contract payments. Any amounts in excess of those requirements are then committed to investment to maximize interest income to the State. Interest earned on moneys in the State Treasury which are requested to be invested by a special fund agency are credited to the special fund agency. All investments of the State are made by the Director of Finance. The maximum length or term of an investment is five years and is determined by the cash flow requirements of the particular program and the general direction of interest rates.

As of June 30, 2012, $3.8 million was credited to the General Fund as investment earnings. The total investment income represents an average return on investment for the General Fund of 0.49%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2007 to 2011. Following thereafter is the statement of revenues and expenditures of the General Fund for each such fiscal year including the statement of revenues and expenditures for each such fiscal year. See also the schedules relating to the General Fund accompanying the General Purpose Financial Statements from the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011, in Part II of Appendix B.

The data set forth in the balance sheets and other financial statements have been prepared by the Comptroller of the State. The General Fund is presented and reported using the modified accrual basis of accounting. Under such basis, revenues are recorded when collected in cash except for (a) revenues susceptible to accrual, i.e., measurable and available, and (b) revenues received prior to the period of benefit. Revenues for which receivables have been recorded (and other noncash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for payment are filed with the Comptroller. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the fiscal year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

General fixed assets purchased or constructed are recorded initially as expenditures and are subsequently reflected at cost in the General Fixed Assets Account Group. Depreciation on general fixed assets is not recorded in the general accounting records.

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BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30
(Amounts in Thousands)

	2007	2008	2009	2010	2011
ASSETS:					
Cash	$ 171,720	$ 318,708	$ 97,454	$ 134,232	$106,420
Advances to other funds	-	-	-	-	
Due from other funds	154,083	90,886	149,795	149,467	138,352
Due from Component Units	33,830	28,958	38,662	34,916	102,304
Receivables:					
Taxes	388,100	370,055	312,936	123,459	356,975
Notes	4,175	3,834	3,487	3,281	2,906
Other	9,514	5,327	16,084	2,274	10,050.
Total receivables	401,789	379,216	332,507	129,014	369,931
Investments	832,645	514,026	75,805	80,448	169,838
Other Assets					37,144
TOTAL ASSETS	$ 1,594,067	$ 1,331,794	$ 694,223	$ 528,077	$923,989
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers payable	$76,367	$129,527	$95,151	$112,010	$100,685
Other accrued liabilities	153,408	150,293	349,997	342,001	219,554
Due to other funds	42	42	22,068	12,718	109
Due to Component Units	41,558	54,243	25,973	10,182	1,261
Deferred revenue	26,482	23,331	16,014	18,232	45,334
TOTAL LIABILITIES	297,857	357,436	509,203	495,143	366,943
FUND BALANCES:					
Reserves:					
Unrealized receivables	4,185	3,843	3,487	3,281	N/A
Encumbrances	327,739	384,520	250,190	222,865	N/A
Unencumbered allotments	82,975	18,530	18,880	17,339	N/A
Total reserves	414,899	406,893	272,557	243,485	N/A
Unreserved fund balance:					
Designated for future expenditures	224,260	103,557	0	0	N/A
Undesignated	657,051	463,908	(87,537)	(210,551)	N/A
Total fund equity	1,296,210	974,358	185,020	32,934	N/A
Restricted	N/A	N/A	N/A	N/A	0
Committed	N/A	N/A	N/A	N/A	0
Assigned	N/A	N/A	N/A	N/A	210,164
Unassigned	N/A	N/A	N/A	N/A	346,882
Total fund balances*	N/A	N/A	N/A	N/A	557,046
TOTAL LIABILITIES AND FUND BALANCES	$ 1,594,067	$ 1,331,794	$ 694,223	$ 528,077	$ 923,989

* Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fumd Type Definitions is effective for governmental fund financial statements issued beginning with fiscal year ended June 30, 2011. GASB Statement 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. All revenues deposited into the general fund are not constrained for specific purposes and are the general obligations of the State and are unassigned. Encumbrance balances at year-end are reflected as assigned.

REVENUES AND EXPENDITURES OF THE GENERAL FUND OF THE STATE OF HAWAII
(for the fiscal years shown)
(Amounts in Thousands)

	2006-2007	% of Total	2007-2008	% of Total	2008-2009	% of Total	2009-2010	% of Total	2010-2011	% of Total
REVENUES:										
General excise tax	$2,632,485	54.24	$2,597,121	53.59	$2,410,756	55.09	$2,279,310	51.37	$2,507,980	50.89
Income tax-corporation	75,151	1.55	88,713	1.83	51,875	1.19	57,394	1.29	44,143	0.90
Income tax-individual	1,543,419	31.80	1,548,552	31.96	1,322,018	30.21	1,351,571	30.46	1,429,045	29.00
Service companies tax	124,017	2.56	127,481	2.63	126,069	2.88	157,661	3.55	117,940	2.39
Liquor licenses and taxes	46,034	0.95	45,620	0.94	47,243	1.08	44,074	0.99	48,053	0.98
Tobacco licenses and taxes	84,247	1.74	83,443	1.72	76,955	1.76	85,502	1.93	106,137	2.15
Insurance premiums tax	94,377	1.94	94,587	1.95	93,720	2.14	104,667	2.36	139,090	2.82
Inheritance and estate tax	162	0.00	164	0.00	274	0.01	0	0.00	0	0.00
Banks and financial corporation tax	17,012	0.35	18,213	0.38	26,075	0.60	18,666	0.42	31,682	0.64
Transient accommodations tax*	6,382	0.13	15,756	0.33	13,408	0.31	31,635	0.71	59,839	1.21
Conveyance tax	7,749	0.16	6,156	0.13	8,768	0.20	17,918	0.40	43,601	0.88
Total Taxes	4,631,035	95.43	4,625,806	95.46	4,177,161	95.45	4,148,398	93.50	4,527,510	91.87
Charges for current services and other revenues	221,977	4.57	220,089	4.54	198,947	4.55	288,401	6.50	400,594	8.13
TOTAL REVENUES	$4,853,012	100.00	$4,845,895	100.00	$4,376,108	100.00	$4,436,799	100.00	4,928,104	100.00
EXPENDITURES:										
General government	$ 355,090	7.96	$ 407,147	8.51	$ 357,479	7.22	$ 344,110	8.14	$353,124	8.50
Public safety	256,072	5.74	280,962	5.87	287,883	5.82	294,576	6.97	259,086	6.24
Conservation of natural resources	38,445	0.86	46,489	0.97	56,813	1.15	35,390	0.84	28,119	0.68
Health	558,748	12.53	573,929	11.99	609,783	12.32	503,625	11.92	461,894	11.12
Welfare	702,526	15.76	744,547	15.56	669,612	13.53	712,900	16.87	761,208	18.32
Education:										
Higher	660,336	14.81	697,333	14.57	735,348	14.86	525,446	12.43	502,424	12.09
Lower and others	1,781,873	39.96	1,889,035	39.47	2,121,087	42.86	1,725,192	40.82	1,699,828	40.91
Culture-recreation	42,259	0.95	53,805	1.12	45,576	0.92	35,884	0.85	38,682	0.93
Urban redevelopment & housing	28,060	0.63	52,035	1.09	22,619	0.46	20,386	0.48	82	0.00
Economic development and assistance	35,586	0.80	39,752	0.83	41,305	0.83	28,269	0.67	43,755	1.05
Other	-	0.00	528	0.01	1,909	0.04	114	0.00	6,722	0.16
TOTAL EXPENDITURES	$4,458,995	100.00	$4,785,562	100.00	$4,949,414	100.00	$4,225,892	100.00	$4,154,924	
OTHER FINANCING SOURCES (USES):										
Transfers in	50,558	-	37,470	-	114,963	-	16,586	-	126,695	-
Transfers out	(432,737)	-	(438,530)	-	(361,534)	-	(382,767)	-	(413,652)	-
Other	20,803	-	18,875	-	30,539	-	3,188	-	37,889	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (361,376)	-	$ (382,185)	-	$ (216,032)	-	$ (362,993)	-	$(249,068)	-

* Act 156, SLH 1998 distributed the Transient Accommodations Tax ("TAT") revenues: 44.8% to the counties, 17.3% to the Convention Center Special Fund and 37.9% to the Tourism Special Fund. On June 30, 2000, the Convention Center Capital and Operations Special Fund ceased to exist, leaving the 17.3% Convention Center share to be distributed to the general fund. On July 1, 2002, Act 253, SLH 2002 redirected these deposits to a Convention Center Special Fund; provided that beginning January 1, 2002 TAT Convention Center Special Fund revenues in excess of $31 million a calendar year shall be deposited into the general fund. Act 250, SLH 2002 redirected a portion of the Tourism Special Fund deposits to other tourism-related special funds as follows: 5.3% to the Trust Fund and 32.6% to the Tourism Special Fund; provided that beginning on July 1, 2002 the TAT collected for the Tourism Special Fund in excess of $62.292 million for the fiscal year shall be deposited into the following funds: 90% of the first $1 million shall be deposited into the state parks special fund, 10% of the first $1 million shall be deposited into the Hawaii statewide trail and access program; provided that the total amount deposited into the state parks special fund and to the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 113, SLH 2003, Section 2(b)(2)(A) redirected the TAT: from the first $1 million in revenues deposited in excess of $62.292 million, 10% of the first $1 million shall be deposited into the special land and development fund; provided that the total amount deposited into the state parks special fund and to the special land and development fund for the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 235, SLH 2005 increases allocation to tourism special fund to 34.2% and repeals TAT trust fund, effective July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to $33 million. Effective on July 1, 2006. Pursuant to Chapter 237D, HRS, a 7.25% Transient Accommodations Tax is assessed and distributed to various counties and special funds of the state. Effective July 1, 2009, an additional 1% tax is assessed for the period July 1, 2009 through June 30, 2010, and an additional 2% for the period July 1, 2010 through June 30, 2015. The additional 1% and 2% is to be distributed to the state general fund. Act 61, SLH2009 authorizing the increase in taxes is set to repeal on June 30, 2015. Act 171, SLH 2012 changed the maximum amount deposited into the tourism special fund to $71 million beginning on July 1, 2012 and ending on June 30, 2015 provided that $2 million shall be expended for the development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii. Act 243, SLH 2012 amends the provision that revenues in excess of $33 million deposited to the convention center enterprise fund in any calendar year be deposited to the general fund to be for any fiscal year.

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The Constitution requires that there be established by law a Council on Revenues (the "Council") to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor's budget preparation and the Legislature's appropriation of funds and enactment of revenue measures. If the Council's latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, SLH 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council regularly reports its estimates and revisions each June 1, September 10, January 10, and March 15. The Council also revises its estimates when it determines that such revisions are necessary or upon request of the Governor or the Legislature. The Council's estimates are used by the Department of Budget and Finance in formulating the State Multi-Year Program and Financial Plan, the Executive Budget, and the Executive Supplemental Budget for submission to the Legislature.

The following is a summary of the Council's actions since September 2011.

In September 2011, the Council raised its growth rate for fiscal year 2012 from 11.0% to 14.5% and for fiscal year 2013 from 6.0% to 6.5% and lowered slightly the growth rates for fiscal years 2014 through 2018. The increases for fiscal years 2012 and 2013 primarily reflected the impact of new tax laws that went into effect in fiscal year 2012. Of the 14.5% growth forecasted for fiscal year 2012, 5.2% was due to economic growth, 4.3% was due to the effect of the delay in income tax refund payments from June 2010 to July 2010, and 5.0% was due to the changes in the tax laws. Without the expected increases in revenues from the new tax laws, the Council's projected growth would have been 9.5%, or 1.5% lower than the previous estimate, due to the Council's concern regarding uncertainties about the economy and the number of visitor arrivals.

In January 2012, the Council lowered its growth rate for fiscal year 2012 from 14.5% to 11.5% and for fiscal year 2016 from 5.0% to 3.0%, while keeping the other fiscal years unchanged. The decrease for fiscal year 2012 was primarily based on lower than expected tax collections for the first six months of the fiscal year. The Council remained uncertain about the revenue impact of a new tax law that suspended certain general excise tax exemptions.

In March 2012, the Council raised its growth rate for fiscal year 2012 from 11.5% to 12.0%, for fiscal year 2013 from 6.5% to 7.5%, for fiscal year 2014 from 3.0% to 4.0%, for fiscal year 2015 from 5.0% to 6.2% and for fiscal year 2016 from 3.0% to 4.0%, while keeping the remaining fiscal years unchanged. The increase for fiscal year 2012 reflected the Council's belief that the economy was improving, with a strong visitor industry, an improving job market and higher consumer confidence. The Council, however, was not entirely optimistic about the future of the economy and was concerned about the uncertainty in European economies, the possibility of war with Iran and rising oil and gas prices.

In May 2012, the Council maintained its growth rate for fiscal year 2012 at 12.0%, lowered its growth rate for fiscal year 2013 from 7.5% to 5.3% and maintained its growth rates for the remaining fiscal years. The decrease for fiscal year 2013 reflected lower revenue gains expected from the suspension of certain general excise tax exemptions and greater revenue losses expected from the renewable energy tax credits.

For fiscal year 2012, actual general fund tax revenues increased by 15.0%, as compared to the Council's projection of 12.0%.

In August 2012, the Council was requested by the Department of Budget and Finance to revisit its forecast because tax collections were substantially greater than forecasted. The Council decided to leave its projected growth rates unchanged, but revised fiscal year 2012 tax revenues to reflect preliminary actual collections. As a result, the dollar amount of the Council's projections increased by an average of $144.0 million per year, from $127.0 million in fiscal year 2012 to $161.3 million in fiscal year 2017.

In September 2012, the Council lowered its growth rate for fiscal year 2013 from 5.3% to 4.9%, for fiscal year 2014 from 4.0% to 3.9%, for fiscal year 2015 from 6.2% to 5.0%, for fiscal year 2016 from 4.0% to 1.2% and for fiscal year 2017 from 5.0% to 4.2%. The Council increased its growth rate for fiscal year 2018 from 5.0% to 5.1%. The decreases were primarily due to a reassessment of the impact of the renewable energy tax credits. The Council was also concerned about the European economies and the future of the Honolulu rail project and its impact on the construction industry.

The Council's next report is due January 10, 2013. See also "General Fund Financial Plan" in this Appendix B.

The management of the State has prepared the prospective financial information set forth below to present the revenue projections of certain tax collections and expenditures. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the projected course of action and the projected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

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General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal year ended June 30, 2012 (preliminary, unaudited), and estimates for the fiscal years ending June 30, 2013 through June 30, 2017, inclusive. The budgetary General Fund resources, expenditures and balances below and under "General Fund Tax Revenues" and "Actual Collections and Distributions" are presented on a cash basis. The State's normal practice is to utilize this cash-basis methodology for budgetary and financial planning purposes. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the cash-basis information presented under this caption, "General Fund Tax Revenues" and "Actual Collections and Distributions" is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

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GENERAL FUND FINANCIAL PLAN 2012 - 2017[1]
(Amounts in Millions of Dollars)

	Actual FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17
REVENUES						
Executive Branch:						
Tax revenues[2, 3]	$4,972.5	$5,223.1	$5,427.2	$5,698.2	$5,767.2	$6,010.4
Nontax revenues[2, 3]	651.0	514.5	512.3	512.3	502.1	506.5
Judicial Branch Revenues[2, 3]	37.2	39.0	39.7	40.4	41.1	41.8
Other Revenue Sources / Adjustments[4]		5.6	(50.9)	(50.9)	7.3	5.9
TOTAL REVENUES	$5,660.6	$5,782.2	$5,928.3	$6,199.9	$6,317.7	$6,564.5
EXPENDITURES						
Executive Branch:						
Operating	$5,443.5	$5,598.8	$5,884.7	$6,059.4	$6,212.9	$6 350.6
Capital Investment						
Specific appropriations	30.5	43.2	11.1	9.4	11.1	9.4
Other[5]		(36.8)				
Subtotal - Executive Branch	5,474.0	5,605.2	5,895.7	6,068.7	6,224.0	6,359.9
Legislative Branch	32.2	32.2	32.2	32.2	32.2	32.2
Judicial Branch	132.7	134.5	134.5	134.5	134.5	134.5
OHA and counties	2.4	2.4	2.4	2.4	2.4	2.4
Appropriation Lapses[6]	(129.9)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	$5,511.3	$5,709.3	$5,999.8	$6,172.8	$6,328.1	$6,464.0
REVENUES OVER EXPENDITURES	149.3	72.8	(71.6)	27.1	(10.4)	100.5
CARRY-OVER BALANCE (DEFICIT)						
Beginning Balance	126.0	275.3	348.1	276.6	303.7	293.2
Ending Balance	275.3	348.1	276.6	303.7	293.2	393.7

1 *Unaudited. The State's cash basis statements are not directly comparable with the State's audited financial statements, which are modified accrual basis.*

2 *Reflects actual fiscal year 2012 revenue collections as reported by the Department of Accounting and General Services.*

3 *Reflects fiscal year 2013 –2017 Council on Revenues' September 2012 projections.*

4 *Reflects other revenue sources and adjustments including: 1) the reduction of general excise tax revenues by $55.5 million in FY 2014 and in FY 2015 for the replenishment of the Hurricane Reserve Trust Fund, as required by Act 62, SLH 2011, 2) the addition of $8.5 million annually from FY 2013 through FY 2017 for the federal interest subsidy on Build America Bonds, 3) the diversion of $1.2 million to $1.3 million annually from general fund non-tax revenues to the shared services technology special fund, as required by Act 84, SLH 2011, and 4) the impact on revenues of measures from the 2012 Legislative Session, including the repayment of $1 million in FY 16 for the start-up appropriation to the Boiler and Elevator Special Fund (Act 103), the loss of $2 million per year for fiscal years 2013 to 2015 due to a temporary increase in the allocation of Transient Accommodations Tax revenues to the Hawaii Tourism Authority (Act 171), additional revenues of $300,000 per year beginning in FY 2013 as a result of a new fee for obtaining a certified copy of a tax clearance (Act 180), and a loss of $900,000 per year beginning in FY 2014 as a result of the extension of the exemption from taxation of capital gains from the sale of leased fee interest in condominium units (Act 220).*

5 *Includes savings for employer contributions for retirement benefits of $19.6 million and health insurance premiums of $17.2 million.*

6 *Not included as an item in the financial statements under "FINANCIAL STATEMENTS" in Part 1 of this Appendix B nor in the projections of the Council on Revenues.*

Note: Reflects the FB 2011-2013 Executive Budget as authorized by Act 164, SLH 2011, as amended by Act 106, SLH 2012. Totals may not add due to rounding.

Sources: Department of Accounting and General Services; Department of Budget and Finance, September 2012.

The preceding General Fund financial plan is based on revised revenue projections reported by the Council on Revenues on September 10, 2012, that also incorporates revenue decreases due to the expiration at the end of fiscal year 2015 of: (1) temporary limits on transient accommodations tax ("TAT") revenue transfers to the counties and the Hawaii Tourism Authority and (2) a temporary 2% increase in the TAT; the expiration on December 15, 2015 of top income tax brackets for high income taxpayers and caps on itemized deductions; the expiration at the end of fiscal year 2013 of the elimination of certain general excise tax exemptions and deductions; and for fiscal years 2013 to 2017, additional reductions due to revised estimates of the impact of the renewable energy credits.

The financial plan also incorporates adjustments for a federal interest subsidy on Build America Bonds, the diversion of general fund non-tax revenues to the shared services technology special fund, the replenishment of the Hurricane Reserve Trust Fund using general excise tax revenues and the impact of acts from the 2012 Legislative Session. For purposes of developing the State budget, debt service on Build America Bonds of the State is budgeted based upon expected gross debt service without taking into account the expected amount of federal interest subsidy payments on such bonds, and subsidy payments are recognized as non-tax revenues.

With respect to expenditures, it reflects the fiscal biennium 2011-2013 Executive Budget, including State department/agency reductions of approximately $40 million per year, additional statewide reductions of approximately $50 million per year for program reprioritizations, approximately $88.2 million per year in labor cost reductions (approximately 5% of labor cost), and approximately $38.2 million in fiscal year 2012 and $19.5 million in fiscal year 2013 in Employer-Union Health Benefits Trust Fund reductions in the employer's 50% share of contributions. The financial plan also incorporates adjustments for savings resulting from revised estimates for the cost of health insurance premiums and retirement benefits.

The State is in the process of developing and preparing its biennium budgets for fiscal years ending June 30, 2014 and June 30, 2015 for the Executive and Judicial Branches and the Office of Hawaiian Affairs. These budgets are to be submitted to the 27th Hawaii State Legislature, which convenes on January 16, 2013, for deliberation and approval. The development of these budgets and subsequent deliberations during the upcoming legislative session could result in changes to program expenditures and modifications to tax and other revenue laws that are not currently reflected in the general fund financial plan included herewith.

In the General Fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to retain 5% of its appropriations up to one year into the next fiscal biennium. For example, $28.2 million carried over from fiscal year 2012 to fiscal year 2013 by the Department of Education did not lapse and was considered to be expended in fiscal year 2012.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2012, and represent approximately 88% of the total General Fund revenues. Set forth below are the actual, cash basis General Fund tax revenues for the fiscal years ended June 30, 2011 and June 30, 2012, and estimated tax revenues for the fiscal years ending June 30, 2013 and June 30, 2014 as reported by the Department of Taxation. The estimated tax revenues are based on the forecast for total General Fund revenues produced by the Council on Revenues at its meeting of September 6, 2012, and the line item projections prepared by the Department of Taxation to be consistent with the Council's forecast.

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GENERAL FUND TAX REVENUES*
(Thousands of Dollars)

	General Fund Tax Revenues* Thousands of dollars			
	Actual 2010-2011	**Actual 2011-2012**	**Estimated 2012-2013**	**Estimated 2013-2014**
General Excise and Use	$2,495,807	$2,697,951	$2,916,219	$3,044,151
Income—Individual	1,246,672	1,540,730	1,571,441	1,607,785
Income—Corporation	34,573	73,027	55,898	58,182
Public Service Company	117,940	150,528	155,740	161,133
Insurance Premiums	140,456	116,777	122,777	128,671
Tobacco & Licenses	106,137	102,853	102,810	106,501
Liquor & Permits	48,054	48,852	50,057	50,867
Banks & Other Financial Corp.	31,677	5,229	27,848	25,963
Inheritance and Estate Tax	6,899	14,152	19,972	20,352
Conveyance	21,527	18,394	15,492	16,695
Transient Accommodation Tax	59,757	126,303	165,660	187,740
Miscellaneous	19,812	83,249	19,147	19,135
TOTAL BEFORE ADJUSTMENTS	$4,329,311	$4,978,045	$5,223,061	$5,427,175
GROWTH RATE	-0.8%	15.0%	4.9%	3.9%

Sources: Council on Revenues' report dated September 10, 2012 and line item projections prepared by the Department of Taxation.

*Unaudited. The State's cash basis statements are not directly comparable with the State's audited financial statements, which are accrual basis.

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for fiscal years 2011 and 2012 reported by the State Director of Taxation. The collections from all sources for fiscal year 2012 amounted to $6.0 billion. This represents a 13.4% increase from the previous fiscal year.

	Fiscal Year Ended 6/30	
	2012	**2011**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$7,229	$33,677
Conveyances[1]	42,106	47,906
Employment security contributions	231,669	190,511
Fuel	193,101	195,336
General excise, license and registration fees	516	479
General excise and use[2]	2,697,951	2,495,807
Honolulu County Surcharge[3]	211,850	199,010
Income—corporations:		
Declaration of estimated taxes	125,383	109,860
Payment with returns	48,494	13,982
Refunds[4]	-100,851	-89,269
Income—individuals[1]:		
Declaration of estimated taxes	364,470	301,476
Payment with returns	129,671	137,754
Withholding tax on wages	1,459,769	1,418,157
Refunds[4]	-412,859	-610,234
Inheritance and estate	14,125	6,899
Insurance fees	4,809	4,869
Insurance premiums	116,777	140,456
Liquor and permits	48,854	48,054
Motor Vehicle Tax/Fees, Etc. [5]	211,742	106,166
Public Service companies	150,528	117,940
Tobacco and licenses[1]	138,798	143,293
Transient Accommodations Fees/Time Share Occupation fees	11	9
Transient Accommodations Tax/Time Share Occupation Tax[1]	323,940	284,463
All other[6]	156	460
TOTAL	$6,008,236	$5,297,062

1 Gross collection — does not reflect allocation to Special Funds.
2 May also contain some revenue from the Honolulu County Surcharge.
3 Taxpayers whose businesses are located outside of Oahu, but have business activities on Oahu may be subject to Honolulu County Surcharge tax.
4 $187.4 million in refunds ($186.1 million for individual income tax and $1.3 million for corporate income tax) were held up in the latter months of FY 2010 and paid out in July of 2010 (beginning of FY 2011).
5 Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.
6 Includes fuel retail dealer permits, penalties and interest on fuel tax, and permitted transfers.

	Fiscal Year Ended 6/30	
	2012	2011
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$4,977,848	$4,329,311
State Highway Fund	237,542	195,765
State Airport Fund	4,353	4,045
Boating Special Fund	1,611	1,666
Environmental Fund	1,315	1,403
Cigarette Stamp Administrative Fund	271	262
Cigarette Stamp Enforcement Fund	2,019	1,968
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	157	223
Employment Security Fund	231,669	190,511
Rental Housing Fund	10,540	11,990
Natural Area Reserve Fund	8,432	9,592
Convention Center Enterprise Fund	35,637	36,795
Land Conservation Fund	4,216	4,796
Tourism Special Fund	69,000	84,981
School Minor Repairs and Maintenance Fund	77	66
Public Libraries Fund	73	62
Domestic Violence/Child Abuse Neglect Funds	154	129
Cancer Research Fund	16,828	17,496
Trauma System Fund	6,312	6,544
Emergency Medical Service Fund	4,203	4,341
Community Health Centers Fund	6,312	6,544
Energy Security Fund	3,944	3,499
Energy Systems Development Fund	2,629	2,332
Agricultural Development & food Security Fund	3,944	3,499
Subtotal	5,631,089	4,919,822
Honolulu County Surcharge	211,850	199,010
Distributions to Counties*:		
Fuel tax	72,297	75,299
Transient Accommodation Tax	93,000	102,931
Counties Total	165,297	178,230
TOTAL	$6,008,236	$5,297,062

*Refers to distributions received by the Counties from the specified taxes.
Source: State Department of Taxation: Tax Research and Planning.

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the Employees' Retirement System of the State of Hawaii for employees of the State and the counties is provided under "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A. The following statistical information addresses the entire System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Employer Contribution Rate

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2006	13.95%	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3
2011	15.52	25.0

* Reflects Act 181, SLH 2004, which amended HRS Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126,. and Act 163, SLH 2011.

In fiscal year 2005, the funding period increased due to recognition of large actuarial losses. In fiscal year 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in fiscal years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during fiscal year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30-year statutory requirement.

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Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2010 and 2011 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2010 and 2011
(Includes all counties)

ASSETS	2011[1]	2010
Total current assets	$11,942,753,360	$11,345,618,006
Present value of future employee contributions	1,610,447,797	1,435,479,895
Present value of future employer normal cost contributions	1,863,531,307	1,601,394,963
Unfunded actuarial accrued liability	8,154,177,009	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$23,570,909,472	$21,520,543,449
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	10,183,713,229	9,259,425,898
Present value of future benefits to active employees and inactive members	13,387,196,243	12,261,117,551
TOTAL LIABILITIES	$23,570,909,472	$21,520,543,449

Source: Gabriel, Roeder, Smith & Company.
(1) Figures reflect assumption changes effective June 30, 2011.

As of June 30, 2011, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $8.154 billion. The System's funded ratios – assets divided by the actuarial accrued liability - decreased during fiscal year 2011 as shown below:

FUNDED RATIOS

June 30, 2010	June 30, 2011[1]
61.4%	59.4%

(1) Figures reflect assumption changes effective June 30, 2011.

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PART II

**GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE STATE OF HAWAII AS OF JUNE 30, 2011
AND INDEPENDENT AUDITORS' REPORT**

The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

The full CAFR has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system and may be obtained from its website, http://emma.msrb.org, or upon request to the State of Hawaii Department of Budget and Finance, 250 South Hotel Street, Honolulu, Hawaii 96813, Attention: Financial Administration Division.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

DEAN H. SEKI
COMPTROLLER

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HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

DEAN H. SEKI
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

Comprehensive Annual Financial Report
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June 30, 2011

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PART III: STATISTICAL SECTION (UNAUDITED)

Comprehensive Annual Financial Report
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June 30, 2011

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2011

Dean H. Seki
Comptroller

Jan S. Gouveia
Deputy Comptroller

Governor	**Neil Abercrombie**
Director of Finance	**Kalbert K. Young**
Director of Taxation	**Frederick D. Pablo**
Comptroller	**Dean H. Seki**
Deputy Comptroller	**Jan S. Gouveia**

Notes:

The Director of Finance is also department head of the Department of Budget and Finance.

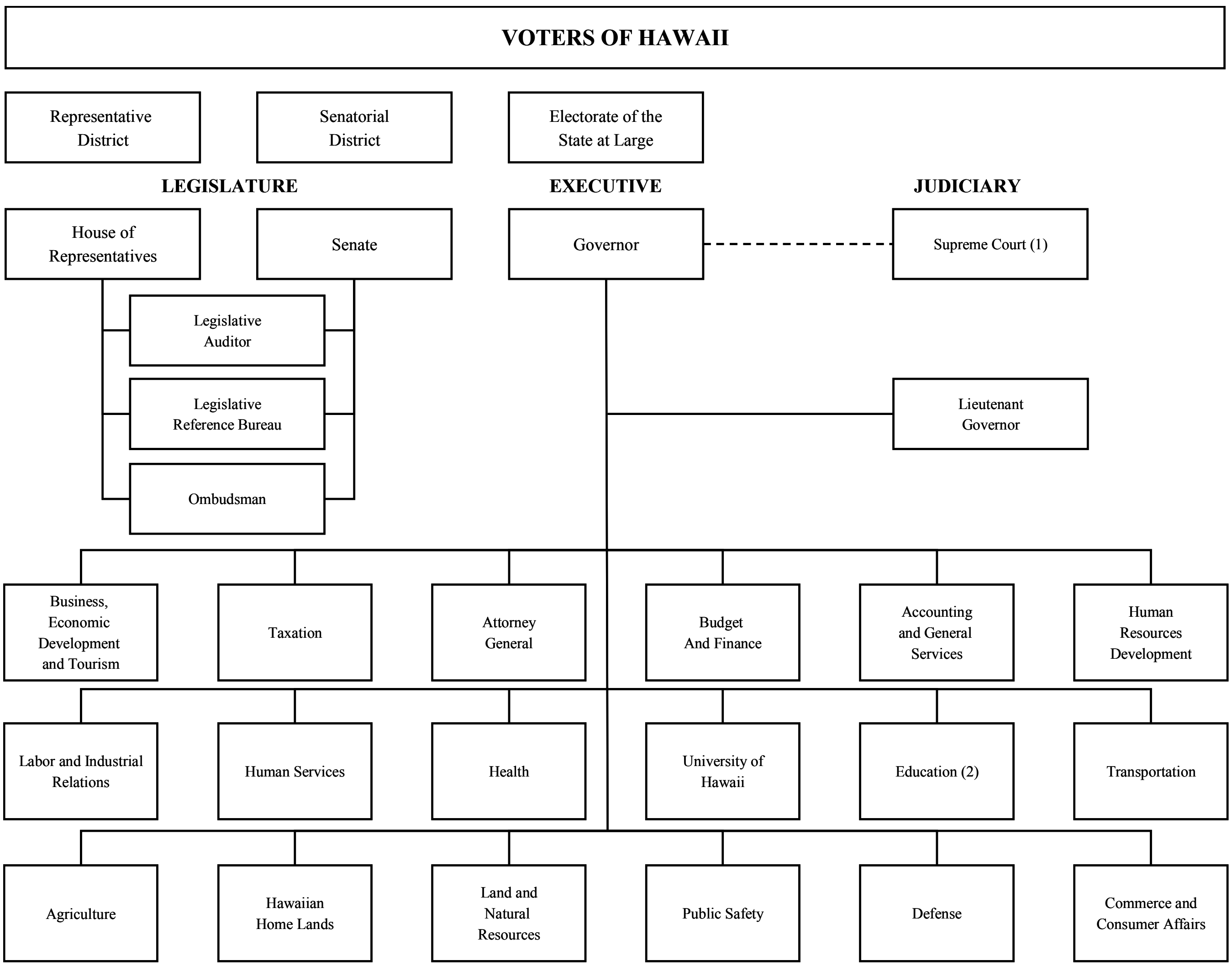
The Comptroller is also department head of the Department of Accounting and General Services.

An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.

STATE OF HAWAII

Organizational Chart

June 30, 2011



(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.

(2) The Board of Education is appointed by the Governor.

NEIL ABERCROMBIE
GOVERNOR

Dean H. Seki
Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

February 16, 2012

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Sixth State
Legislature of the State of Hawaii:

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2011. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, and supplementary information. The statistical section includes selected financial and demographic information.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

THE REPORTING ENTITY AND ITS SERVICES

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

This report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on their fiscal independence and/or separate legal entity status, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

State of the Economy

Overview

During the first nine months of 2011, Hawaii's economic indicators were mostly positive. The State's tourism industry, the labor market, personal income, prices and tax revenues all reflected positive growth in comparison to the same period of 2010. The construction industry reflected a negative growth during the first nine months of 2011, however it experienced a positive growth during the third quarter of 2011 over the same quarter of 2010.

Labor

After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the fourth consecutive quarter. During the first nine months of 2011, Hawaii's total civilian employment averaged 594,050 persons, an increase of 6,650 persons or 1.2% over the same period in 2010. The number of wage and salary jobs was up 7,950 to 598,300 for an increase of 1.3%. Job increases were most notable in professional & business services (3,300), educational services (2,200), food services & drinking places (1,500), information (1,200) and accommodation (1,000). A few sectors which experienced declines were Transportation, Warehousing & Utilities (650), Wholesale Trade (600) and Government (600). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 6.3% for the first nine months of 2011, compared to 6.7% for the same period in 2010.

Taxes

Tax revenues distributed to the State's General Fund increased $311.5 million, or 9.7%, during the first nine months of 2011 compared to the same period in 2010. All components reflected an increase during this same period. Individual net income tax collections increased $102.2 million or 10.3%, general excise and use tax (GET) collections increased $159.3 million, or 8.8%, and transient accommodations tax (TAT) collections were up $50.6 million, or 27.4%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $2.7 billion, or 4.8% in the first half of 2011 compared to the same period in 2010. Among its components, the fastest growth was seen in personal current transfer receipts of 6.7%, dividends, interest and rent of 5.2%, proprietors' income of 4.6% and supplements to wages and salaries 4.5%. Contributions for government social insurance, which are subtracted from personal income, decreased by 4.6%.

Prices

Honolulu's consumer price index (CPI) increased 3.5% for the first half of 2011 compared to the same period in 2010, higher than the 2.8% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in other goods and services (7.0%), transportation (6.8%), recreation (3.7%) and education and communication (3.6%). The prices for housing and food &

beverages increased 2.9% and 2.6%, respectively, while the price for medical care increased slightly by .2%.

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2011, total visitor arrivals by air increased 134,272 or 2.6% compared to the same period of 2010. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 2.5% while international arrivals increased 2.7%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 4.1% in the first nine months of 2011 compared to the same period of 2010 and total visitor spending increased $1.2 billion or 14.7% over the same period. Statewide hotel occupancy rate averaged 73.9% in the first nine months of 2011, 2.8% higher than the average rate during the same period of 2010.

Construction

Hawaii's construction industry was one of the major contributors to job growth during the 2002-2007 years. Since the second quarter of 2008 to the first quarter of 2011, the quarter-over-quarter growth rate has been negative. However, in the third quarter of 2011, the construction sector gained 400 jobs or 1.4% compared with the same quarter of 2010. During the first nine months of 2011, construction jobs decreased by 250 or .9% compared to the same period of 2010. The total value of new private building authorizations decreased $188.1 million or 12.2% for the first nine months of 2011 compared to the same period of 2010.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2011 and into 2012. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies. International conditions or prospects that affect Hawaii's economy such as the European debt crisis, China domestic demands and natural disaster recoveries in Japan, Thailand, Australia and New Zealand. The November 2011 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2012 to increase 2.1% for the U.S. and 2.2% for Japan due to ongoing recovery from the March 2011 Tohoku earthquake and tsunami.

In 2012, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 3.4%, 3.0%, and 5.6%, respectively.

DBEDT projects total wage and salary jobs to increase 1.6% in 2012. Real Personal Income is expected to increase 1.2% in 2012 with real GDP projected to increase 1.7% in 2012.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.8% in 2012. The State GDP deflator is expected to grow 1.7% in 2012.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management, including:

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the State's internal controls are effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2009, as amended by the Supplemental Appropriations Act of 2010, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

RISK MANAGEMENT

The State has insurance policies with a variety of insurers for property coverage for its buildings, contents and equipment. The coverage includes loss from fire, boiler & machinery, terrorism coverage, as well as windstorm, flood, tsunami and earthquake damage. The State also purchases excess liability insurance, medical insurance, faithful performance of duty, and depositors & forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. There are 13 bargaining units, of which 12 bargaining units have state employees as members. The 12 bargaining units have contractual agreements in force as of the date of this letter.

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2011. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA)last awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This was the twentieth consecutive year that the State has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

The Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010 did not receive the Certificate of Achievement because of its late issuance. We believe our report otherwise met the certificate's requirements and intend to submit future reports to the GFOA to determine eligibility for the certificate.

ACKNOWLEDGEMENTS

We extend our appreciation to the staff of the various State agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

DEAN H. SEKI
Comptroller, State of Hawaii

JAN S. GOUVEIA
Deputy Comptroller, State of Hawaii

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PART II: FINANCIAL SECTION

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Deloitte.

Deloitte & Touche LLP
1132 Bishop Street
Suite 1200
Honolulu, HI 96813-2870
USA

Tel: +1 808 543 0700
Fax: +1 808 526 0225
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2011, which collectively comprise the State of Hawaii's basic financial statements (pages 32 – 117) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units. These financial statements that we did not audit reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	98%	61%
Aggregate Discretely Presented Component Units	100%	100%
Fiduciary Funds	52%	6%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2011, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during fiscal year 2011, the State adopted GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions.*

The management's discussion and analysis (pages 13-30) and Schedule of Revenue and Expenditures – Budget and Actual and Schedules of Funding Progress (pages 113-117 and 124-129) are not a required Part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The introductory section (pages 1-7), combining and individual fund statements and schedules (pages 120-123 and 131-137), and the statistical section (pages 140-158), are presented for purposes of additional analysis and are not a required Part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Deloitte & Touche LLP

February 16, 2012

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2011 by $4.9 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.8 billion, a decrease of $991.3 million from the previous year. Net assets of governmental activities and business-type activities decreased by $607.3 million and increased by $126.7 million, respectively. The combined decrease to the State was $480.6 million from the prior fiscal year.

Fund Highlights

At June 30, 2011, the State's Governmental Funds reported combined ending fund balances of $751.4 million, a decrease of $199.2 million from the prior fiscal year. Of this amount, $557 million, or 74.1%, of total fund balances was in the General Fund, and the remaining $194.4 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2011, of $3 billion, an increase of $126.7 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $9.3 billion, an increase of $612.2 million. During fiscal 2011, the State's Department of Transportation issued Revenue bonds in the amount of $164.3 million, for the purpose of financing capital projects to the Harbors Systems, and $37.5 million to advance refund $38.9 million of previously issued outstanding revenue bonds. In accordance with GASB No. 45, the State increased the liability for *Postemployment Benefits Other Than Pension,* to $2 billion, an increase of $636.0 million for the fiscal year ended June 30, 2011.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues ("governmental activities") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division ("Airports"), Department of Transportation – Harbors Division ("Harbors"), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 32–34 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the Government-Wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 35 – 38 of this report.

Proprietary Funds

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 39 – 43 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on page 45 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 52 – 110 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.9 billion as of June 30, 2011, and net assets decreased $480.6 million, or 9%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $607.3 million, or 24.6%, and business-type activities had an increase of $126.7 million, or 4.4%. The following table was derived from the Government-Wide statement of net assets.

Summary Schedule of Net Assets

June 30, 2011 and 2010
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	$ 2,422,652	$ 2,676,980	$ 2,312,526	$ 2,042,890	$ 4,735,178	$ 4,719,870
Capital assets, net	8,792,934	8,740,404	2,409,685	2,380,609	11,202,619	11,121,013
Total assets	11,215,586	11,417,384	4,722,211	4,423,499	15,937,797	15,840,883
Liabilities:						
Long-term liabilities	7,811,543	7,331,670	1,508,606	1,373,070	9,320,149	8,704,740
Other liabilities	1,544,255	1,618,586	201,192	164,744	1,745,447	1,783,330
Total liabilities	9,355,798	8,950,256	1,709,798	1,537,814	11,065,596	10,488,070
Net assets:						
Invested in capital assets, net of related debt	3,326,245	3,118,606	1,476,136	1,469,676	4,802,381	4,588,282
Restricted	917,730	655,238	956,894	922,846	1,874,624	1,578,084
Unrestricted	(2,384,187)	(1,306,716)	579,383	493,163	(1,804,804)	(813,553)
Total net assets	$ 1,859,788	$ 2,467,128	$ 3,012,413	$ 2,885,685	$ 4,872,201	$ 5,352,813

Analysis of Net Assets

By far the largest portion of the State's net assets ($4.8 billion or 98.5%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.9 billion or 38.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (negative $1.8 billion or negative 37%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2011, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's other postemployment benefit liability of $2 billion.

Changes in Net Assets

The State's net assets decreased by $480.6 million, or 9%, during the fiscal year ended June 30, 2011. Approximately 49.7% of the State's total revenues came from taxes, while 31.7% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 17.6% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and unemployment compensation.

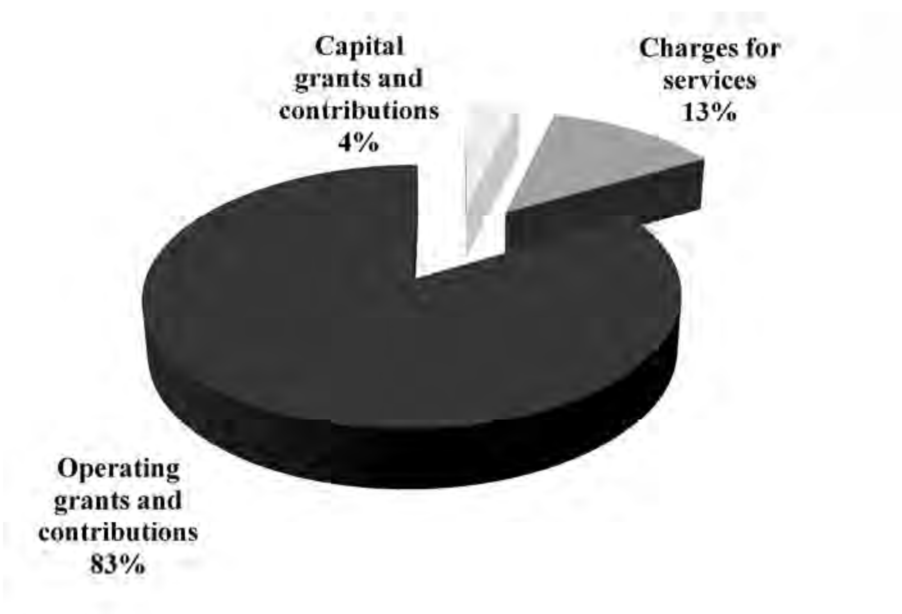
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(Amounts in thousands)

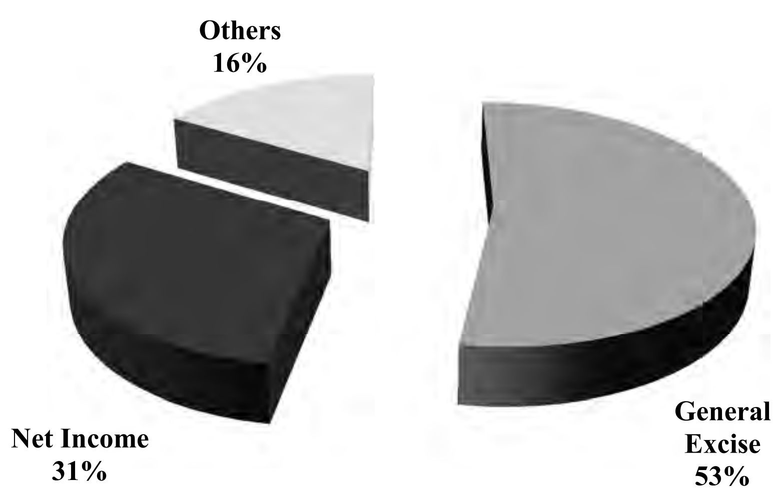
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ 428,772	$ 441,471	$ 1,264,434	$ 1,155,942	$ 1,693,206	$ 1,597,413
Operating grants and contributions	2,837,464	2,598,141	-	-	2,837,464	2,598,141
Capital grants and contributions	132,825	144,445	75,324	98,099	208,149	242,544
General revenues:						
Taxes	4,774,934	4,368,686	-	-	4,774,934	4,368,686
Interest and investment income	55,852	124,518	33,587	68,950	89,439	193,468
Other	-	(3,036)	-	-	-	(3,036)
Total revenues	8,229,847	7,674,225	1,373,345	1,322,991	9,603,192	8,997,216
Expenses:						
General government	535,434	421,327	-	-	535,434	421,327
Public safety	471,459	538,110	-	-	471,459	538,110
Highways	450,548	466,322	-	-	450,548	466,322
Conservation of natural resources	89,021	81,561	-	-	89,021	81,561
Health	816,525	858,476	-	-	816,525	858,476
Welfare	2,553,829	2,348,190	-	-	2,553,829	2,348,190
Lower education	2,545,980	2,616,768	-	-	2,545,980	2,616,768
Higher education	707,381	700,335	-	-	707,381	700,335
Other education	14,018	14,034	-	-	14,018	14,034
Culture and recreation	108,697	108,247	-	-	108,697	108,247
Urban redevelopment and housing	66,144	101,505	-	-	66,144	101,505
Economic development and assistance	238,315	209,611	-	-	238,315	209,611
Interest expense	239,836	210,243	-	-	239,836	210,243
Airports	-	-	354,368	336,127	354,368	336,127
Harbors	-	-	80,355	68,291	80,355	68,291
Unemployment compensation	-	-	561,548	686,141	561,548	686,141
Nonmajor proprietary fund	-	-	250,346	256,205	250,346	256,205
Total expenses	8,837,187	8,674,729	1,246,617	1,346,764	10,083,804	10,021,493
Change in net assets	(607,340)	(1,000,504)	126,728	(23,773)	(480,612)	(1,024,277)
Net assets – beginning of year – as previously reported	2,467,128	3,467,632	2,885,685	2,907,211	5,352,813	6,374,843
Adjustments	-	-	-	2,247	-	2,247
Net assets – beginning of year – as restated	2,467,128	3,467,632	2,885,685	2,909,458	5,352,813	6,377,090
Net assets – end of year	$ 1,859,788	$ 2,467,128	$ 3,012,413	$ 2,885,685	$ 4,872,201	$ 5,352,813

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2011



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2011



Analysis of Changes in Net Assets

The State's net assets decreased by $480.6 million during the current fiscal year. This is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $607.3 million with a decrease in net assets of Unemployment Compensation Fund of $25.9 million, offset by increases in net assets of Airports, Harbors and Nonmajor Proprietary Funds of $87.9 million, $20.9 million and $43.9 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $607.3 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2011	**2010**
General revenues:		
Taxes	$ 4,774,934	$ 4,368,686
Interest and investment income and other	55,852	121,482
Total general revenues	4,830,786	4,490,168
Expenses, net of program revenues:		
General government	(239,420)	(140,251)
Public safety	440,026	502,629
Highways	260,142	250,122
Conservation of natural resources	22,043	26,944
Health	604,013	559,827
Welfare	829,081	693,873
Lower education	2,241,881	2,331,537
Higher education	707,381	700,335
Other education	14,018	12,829
Culture and recreation	106,539	106,781
Urban redevelopment and housing	17,664	54,066
Economic development and assistance	194,922	181,737
Interest expense	239,836	210,243
Total governmental activities expenses, net of program revenues	5,438,126	5,490,672
Decrease in governmental activities net assets	$ (607,340)	$ (1,000,504)

Tax revenues increased by $406.2 million, or 9.3%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $228.7 million, in individual and corporate income taxes of $68.7, in taxes on premiums of insurance companies of $34.7 million, in transient accommodations taxes of $28.2 million, offset by a decrease in public service company taxes of $39.7 million.

Interest and investment income decreased by $65.6 million from the previous year. This decrease is primarily attributed to a smaller increase in the fair market value of investments in the State's investment pool. The fair market value of the investments in fiscal 2011 increased $43.2 million, compared to an increase of $103.2 million in fiscal 2010.

General government net revenues increased $99.2 million, or 70.7%, from the previous fiscal year due mainly to the $111 million cash transferred in from the Hawaii Hurricane Relief Fund.

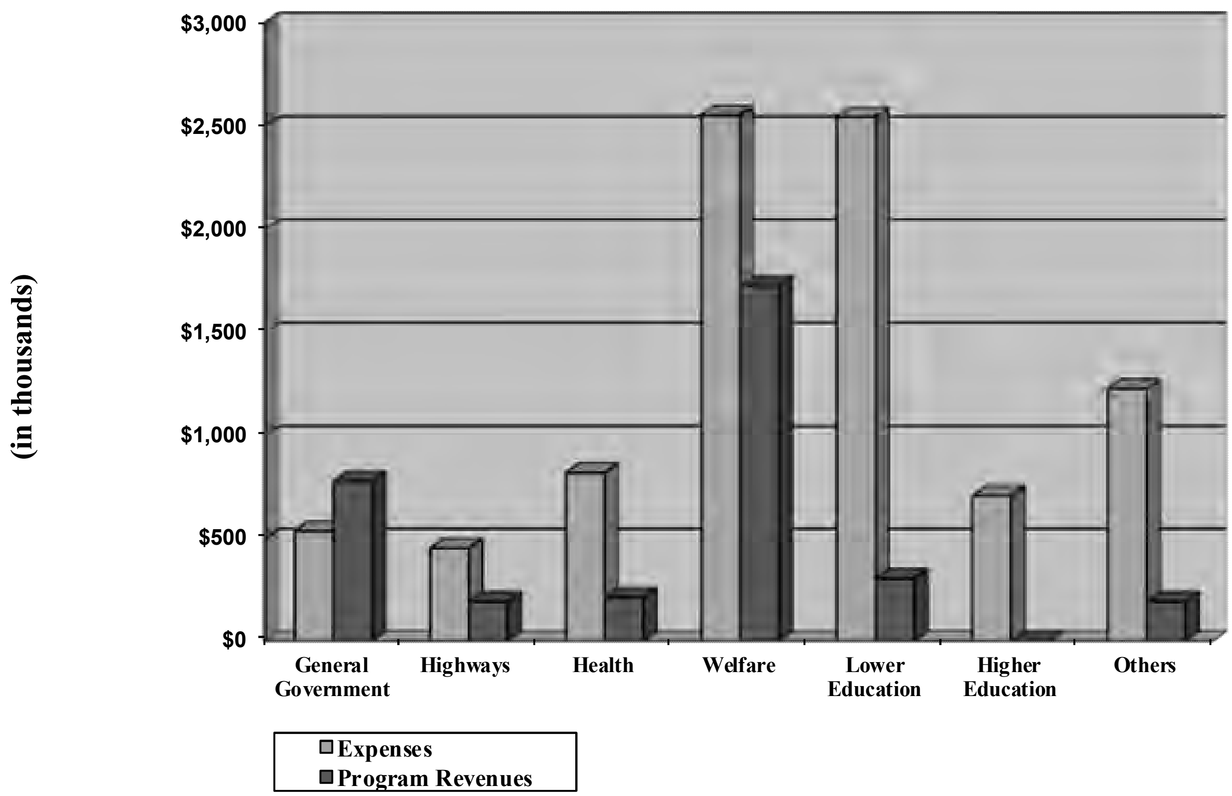
Public safety net expenses decreased $62.6 million, or 12.5%. This decrease is primarily attributed to a decrease in the cost related to the State's correctional facilities.

Welfare net expenses increased $135.2 million or 19.5%. This increase is primarily due to an increase in expenditures for medical assistance programs funded by general and federal grant funds.

Lower education net expenses decreased $89.7 million or 3.8% from the previous fiscal year due to a decrease in the amount expended for school facilities repairs in fiscal 2011.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

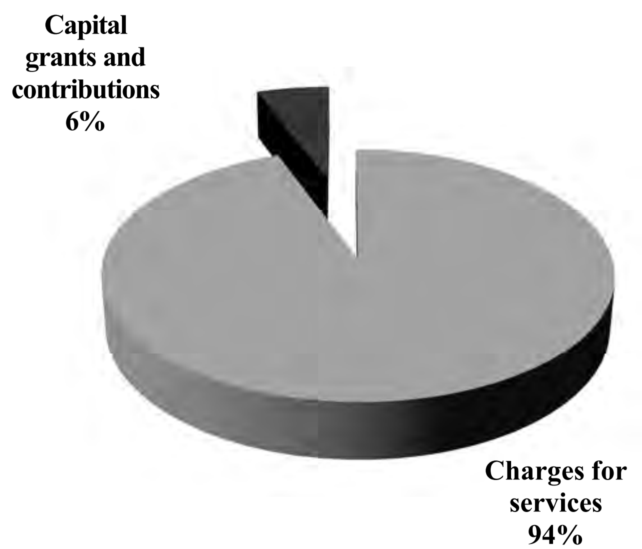
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2011



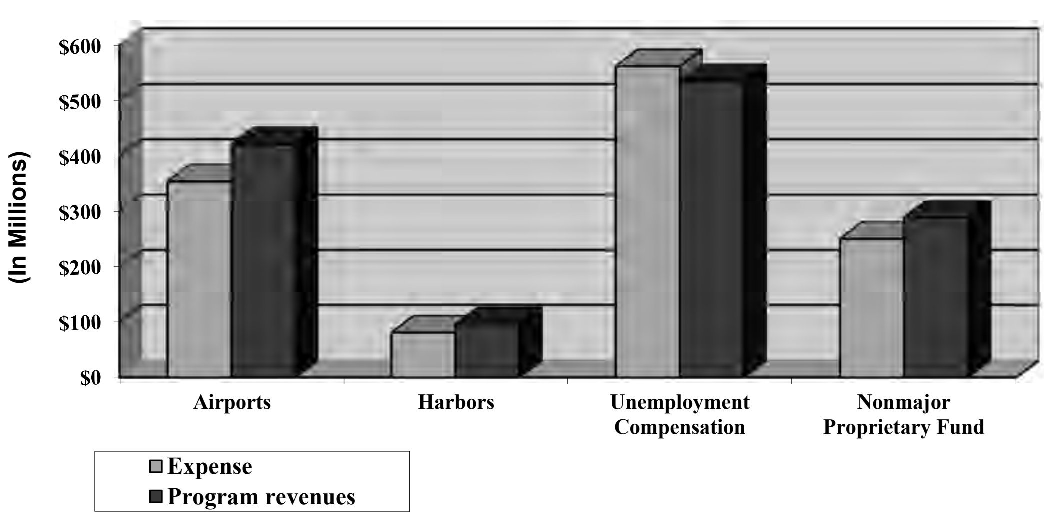
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2011



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2011



Business-type activities increased the State's net assets by $126.7 million in fiscal 2011, compared to a decrease of $21.5 million in fiscal 2010. Key elements of this increase are as follows:

- Airport's net assets increased $87.9 million compared to an increase of $75.8 million in the prior fiscal year. Charges for current services increased by $62.9 million primarily due to an increase in rental car customer facility charges. Interest income decreased by $18.4 million due to a smaller increase in the fair market value of investments in the State's treasury investment pool realized in fiscal year 2011 as compared to fiscal year 2010. The fair market value of investments increased $13.1 million in fiscal year 2011 compared to an increase of 31.0 million in fiscal year 2010. Expenses increased by $18.2 million.

- Harbor's net assets increased $20.9 million in fiscal 2011 compared to an increase of $18.8 million in fiscal 2010. Charges for current services increased by $12.6 million offset by an increase in expenses of $12.1 million.

- The Unemployment Compensation Fund's net assets decreased $25.9 million compared to a decrease of $193.4 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $124.6 million offset by an increase in unemployment tax revenues of $48.8 million.

- Nonmajor Proprietary Fund's net assets increased $43.9 million in fiscal 2011 compared to an increase of $77.4 million in fiscal 2010. The aggregate Nonmajor Proprietary Fund revenues decreased by $29.9 million, primarily due to a decrease of $10.0 million of premium insurance revenues of the EUTF and a decrease in capital contributions for the Drinking Water Treatment Revolving Fund by $10.9 million. Also contributing to the decrease was a $5.4 million decrease in interest income earned by the Water Pollution Control Revolving Fund in fiscal 2011.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2011 and 2010 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Airports	$ 387,484	$ 324,577	$ 33,695	$ 47,863	$ 421,179	$ 372,440	$ 354,368	$ 336,127	$ 66,811	$ 36,313
Harbors	85,920	73,340	9,426	3,865	95,346	77,205	80,355	68,291	14,991	8,914
Unemployment compensation	535,243	486,476	-	-	535,243	486,476	561,548	686,141	(26,305)	(199,665)
Nonmajor proprietary funds	255,787	271,549	32,203	46,371	287,990	317,920	250,346	256,205	37,644	61,715
Total	$ 1,264,434	$ 1,155,942	$ 75,324	$ 98,099	$ 1,339,758	$ 1,254,041	$ 1,246,617	$ 1,346,764	$ 93,141	$ (92,723)

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In fiscal 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extend the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, and unassigned. Additional information on fund balance classifications is found in Note 1.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $751.4 million. Of this amount, $21.6 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $600.1 million has been committed to specific purposes. An additional $549.5 million has been assigned to specific purposes by management. The unassigned or unrestricted fund balance, normally a positive amount, was a negative $419.8 million at fiscal year end. This deficit is the result of a negative unrestricted fund balance of $766.7 million in the Capital Projects Fund.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $557.0 million compared to $32.9 million in fiscal 2010. This increase is mainly attributed to the increase in tax revenues and cost savings measures implemented by the State such as employee furloughs and pay reductions as well as spending restrictions. Also contributing to the increase was transfers from special funds of $126.7 million and from the Hawaii Hurricane Relief fund of $111.0 million. The fund balance of the State's Capital Projects Fund decreased $656.9 million during the fiscal year. This deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $523.3 million and is reflected on the balance sheet as "Due to Component Units". Insufficient cash from general obligation proceeds required a cash loan of $186.2 million from the Department of Transportation- Harbors Division, a proprietary fund. The cash borrowed from the Department of Transportation- Harbors Division was paid back in December 2011 when the State issued $800 million of general obligation bonds. The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds decreased $32.4 million and $34.0 million, respectively.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $87.9 million, Harbors had an increase in net assets of $20.9 million, the Unemployment Compensation Fund had a decrease in net assets of $25.9 million, and the Nonmajor Proprietary Funds had an increase in net assets of $43.9 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $243.9 million, or 5.1%, more than the final budget. The increase was attributed to higher tax revenues $56.5 million, which was comprised of increases in general excise taxes of $71.3 million, tax on premium of insurance companies of $19.1 million, conveyance taxes of $18.2 million, and franchise taxes of $12.5 million, offset by lower public service companies taxes of $66.5 million. Other revenues collected exceeded the budgeted amount by $187.5 million due primarily to the transfer of $111.0 million from the Hurricane Relief Fund and reimbursements from federal welfare programs of $39.4 million.

The difference between the final budget and actual expenditures on a budgetary basis was $263.5 million. This large positive variance was the result of spending restrictions on executive branch departments and debt restructuring. The positive variance in general government is mostly due to savings from debt restructuring of $73.6 million and $68.7 million for health premium and retirement benefits not incurred because of delayed cost increases. The positive variance in general government was also due to $15.6 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in public safety, health and welfare resulted from spending restrictions. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $34.2 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations.

Capital Asset and Debt Administration

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to $11.2 billion (net of accumulated depreciation of $8.9 billion), an increase of $81.6 million from fiscal 2010. The increase is primarily due to $507.1 million of additions to construction in progress in fiscal 2011. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2011, included the following:

- $27.6 million for various projects including concourse, support and maintenance facilities at the Honolulu International Airport.
- $40.0 million for various capital improvement projects at airports, statewide.
- $37.1 million for various highway projects throughout the State.

- $44.9 million for additions and renovations for the Information Technology Center at the University of Hawaii.
- $142.5 million for the Cancer Research Center at the University of Hawaii.
- $287.9 million for various construction, maintenance and renovation projects at all University of Hawaii campuses.
- $174.3 million for various capital improvement projects and for repairs and maintenance of public school facilities throughout the State.
- $25.6 million for various construction, maintenance and renovation projects at state community hospitals.
- $127.1 million for State Educational Facilities Improvements.

Additional information on the State's capital assets can be found in Note 3 of the notes to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $6.8 billion. Of this amount, $5.0 billion comprises debt backed by the full faith and credit of the State and $1.8 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2011 and 2010
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
General obligation bonds	$ 4,987,544	$ 5,157,198	$ 36,221	$ 37,362	$ 5,023,765	$ 5,194,560
Revenue bonds	378,625	400,215	1,410,624	1,285,792	1,789,249	1,686,007
Total	$ 5,366,169	$ 5,557,413	$ 1,446,845	$ 1,323,154	$ 6,813,014	$ 6,880,567

The State's total long-term debt decreased by $67.6 million, or 1.0%, during the current fiscal year. The decrease resulted from declining principal balances offset by the issuance of $164.3 million of revenue bonds for financing capital projects to the Harbor Systems (see Note 4 to the basic financial statements).

As of June 30, 2011, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2011 was $305 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2009 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $15.9 billion. The State's combined annual OPEB cost for fiscal 2011 was $1.1 billion and its OPEB contributions were $268.7 million, resulting in an increase in the net OPEB obligation of $788.1 million. The total net OPEB obligation balance at fiscal year end increased to $2.5 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for December 2011 was 6.3%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.6% while the seasonally adjusted national unemployment rate was 9.4%.

The Council of Revenues in January 2012 lowered the State's General Fund tax revenue growth rate for fiscal 2012 from 14.5% to 11.5% while keeping the growth forecast for fiscal 2013, 2014 and 2015 at 6.5%, 3.0% and 5.0%, respectively. The growth rate for fiscal 2016 was lowered from 5.0% to 3.0%.

Cumulative general fund tax revenues for the first five months of fiscal 2012 was $1.9 billion, an increase of $108.6 million from the same period last fiscal year. This increase is net of an estimated $184 million of individual income tax refunds that were delayed and paid in early fiscal 2011. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 8.0%.

Because of the lower estimated general fund revenue growth in fiscal year 2012, the Governor has imposed a 1.5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
CASH AND CASH EQUIVALENTS	$ 588,018	$ 758,333	$ 1,346,351	$ 461,203
RECEIVABLES:				
Taxes	356,975	86,750	443,725	-
Accounts and accrued interest — net	-	38,362	38,362	181,800
Notes, loans, mortgages, and contributions — net	85,261	-	85,261	68,282
Federal government	82,880	17,441	100,321	5,598
Premium	-	31,332	31,332	-
Other — net	68,127	2,972	71,099	64,339
Total receivables	593,243	176,857	770,100	320,019
INTERNAL BALANCES	(184,596)	184,596	-	-
DUE FROM COMPONENT UNITS	409,222	-	409,222	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	106,263
INVESTMENTS	890,251	-	890,251	384,219
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,038
Materials and supplies	-	476	476	31,714
Total inventories	-	476	476	55,752
RESTRICTED ASSETS	-	742,873	742,873	310,285
OTHER ASSETS:				
Prepaid expenses	5,702	12,577	18,279	15,089
Bond issue and deferred costs — net	83,668	8,202	91,870	1,449
Note receivable	-	381,473	381,473	360,340
Due from Primary Government	-	-	-	432,080
Investments	-	-	-	726,429
Other	37,144	47,139	84,283	33,043
Total other assets	126,514	449,391	575,905	1,568,430
CAPITAL ASSETS:				
Land and land improvements	2,182,065	585,215	2,767,280	460,048
Infrastructure	8,720,586	-	8,720,586	144,627
Construction in progress	793,166	343,723	1,136,889	335,073
Buildings, improvements, and equipment	4,034,685	3,397,641	7,432,326	3,533,555
Accumulated depreciation	(6,937,568)	(1,916,894)	(8,854,462)	(1,847,700)
Total capital assets — net	8,792,934	2,409,685	11,202,619	2,625,603
TOTAL	$ 11,215,586	$ 4,722,211	$ 15,937,797	$ 5,831,774

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 381,003	$ 51,098	$ 432,101	$ 150,876
Other accrued liabilities	274,406	124,032	398,438	117,615
Prepaid airport use charge fund	-	2,500	2,500	-
Due to Component Units	538,343	-	538,343	-
Due to Primary Government	-	-	-	409,222
Due to federal government	22,800	-	22,800	-
Deferred revenue	22,706	4,078	26,784	59,715
Estimated future costs of land sold	-	-	-	35,209
Unamortized bond premium	223,756	-	223,756	-
Premiums payable	-	19,484	19,484	-
Other	81,241	-	81,241	6,771
Long-term liabilities:				
Due within one year:				
Payable from restricted assets —				
Revenue bonds payable — net	-	33,876	33,876	-
General obligation bonds payable	286,331	1,609	287,940	-
Notes, mortgages, and installment contracts payable	-	-	-	9,302
Accrued vacation and retirement benefits payable	62,619	3,584	66,203	40,487
Revenue bonds payable — net	22,410	-	22,410	69,961
Reserve for losses and loss adjustment costs	26,361	1,201	27,562	7,536
Capital lease obligations	5,180	-	5,180	7,811
Deferred commitment fees	-	-	-	121
Due in more than one year:				
General obligation bonds payable	4,701,213	34,612	4,735,825	-
Notes, mortgages, and installment contracts payable	-	-	-	32,160
Accrued vacation and retirement benefits payable	152,980	8,696	161,676	71,456
Revenue bonds payable — net	356,215	1,376,748	1,732,963	1,029,392
Reserve for losses and loss adjustment costs	127,159	3,670	130,829	20,861
Capital lease obligations	95,340	-	95,340	17,433
Premium on bond payable	-	-	-	6,621
Other postemployment benefit liability	1,975,409	34,808	2,010,217	471,824
Other	326	9,802	10,128	63,456
TOTAL LIABILITIES	9,355,798	1,709,798	11,065,596	2,627,829
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,326,245	1,476,136	4,802,381	1,910,846
RESTRICTED FOR:				
Capital maintenance projects	39,417	-	39,417	-
Health and welfare	178,676	-	178,676	-
Natural resources	106,281	-	106,281	-
Hawaiian programs	238,467	-	238,467	-
Budget stabilization	9,667	-	9,667	-
Other purposes	345,113	-	345,113	-
Bond requirements and other	109	956,894	957,003	1,110,618
UNRESTRICTED	(2,384,187)	579,383	(1,804,804)	182,481
TOTAL NET ASSETS	$ 1,859,788	$ 3,012,413	$ 4,872,201	$ 3,203,945

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 535,434	$ 270,078	$ 504,776	$ -	$ 239,420	$ -	$ 239,420	
Public safety	471,459	31,433	-	-	(440,026)	-	(440,026)	
Highways	450,548	5,894	51,687	132,825	(260,142)	-	(260,142)	
Conservation of natural resources	89,021	24,094	42,884	-	(22,043)	-	(22,043)	
Health	816,525	46,215	166,297	-	(604,013)	-	(604,013)	
Welfare	2,553,829	108	1,724,640	-	(829,081)	-	(829,081)	
Lower education	2,545,980	41,779	262,320	-	(2,241,881)	-	(2,241,881)	
Higher education	707,381	-	-	-	(707,381)	-	(707,381)	
Other education	14,018	-	-	-	(14,018)	-	(14,018)	
Culture and recreation	108,697	-	2,158	-	(106,539)	-	(106,539)	
Urban redevelopment and housing	66,144	4,784	43,696	-	(17,664)	-	(17,664)	
Economic development and assistance	238,315	4,387	39,006	-	(194,922)	-	(194,922)	
Interest expense	239,836	-	-	-	(239,836)	-	(239,836)	
Total governmental activities	8,837,187	428,772	2,837,464	132,825	(5,438,126)	-	(5,438,126)	
Business-Type Activities:								
Airports	354,368	387,484	-	33,695	-	66,811	66,811	
Harbors	80,355	85,920	-	9,426	-	14,991	14,991	
Unemployment compensation	561,548	535,243	-	-	-	(26,305)	(26,305)	
Nonmajor proprietary funds	250,346	255,787	-	32,203	-	37,644	37,644	
Total business-type activities	1,246,617	1,264,434	-	75,324	-	93,141	93,141	
TOTAL PRIMARY GOVERNMENT	10,083,804	1,693,206	2,837,464	208,149	(5,438,126)	93,141	(5,344,985)	
COMPONENT UNITS:								
University of Hawaii	1,520,543	368,715	502,414	-				(649,414)
Hawaii Housing Finance and Development Corporation	75,602	40,562	54,349	-				19,309
Hawaii Public Housing Authority	123,655	20,442	70,821	24,242				(8,150)
Hawaii Health Systems Corporation	600,193	488,383	1,667	29,629				(80,514)
Hawaii Tourism Authority	113,684	12,462	-	-				(101,222)
Hawaii Community Development Authority	6,791	8,424	-	-				1,633
Hawaii Hurricane Relief Fund	4	-	-	-				(4)
Total component units	2,440,472	938,988	629,251	53,871				(818,362)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,507,980	-	2,507,980	-
Net income tax — corporations and individuals					1,477,624	-	1,477,624	-
Public service companies tax					117,940	-	117,940	-
Transient accommodations tax					60,839	-	60,839	-
Tobacco and liquor taxes					173,851	-	173,851	-
Liquid fuel tax					91,265	-	91,265	-
Tax on premiums of insurance companies					140,586	-	140,586	-
Vehicle weight and registration tax					59,476	-	59,476	-
Rental motor/tour vehicle surcharge tax					43,892	-	43,892	-
Franchise tax					33,682	-	33,682	-
Other tax					67,799	-	67,799	-
Interest and investment income					55,852	33,587	89,439	56,261
Payments from the State — net					-	-	-	818,698
Other expense					-	-	-	(6,935)
Total general revenues					4,830,786	33,587	4,864,373	868,024
CHANGE IN NET ASSETS					(607,340)	126,728	(480,612)	49,662
NET ASSETS — Beginning of year					2,467,128	2,885,685	5,352,813	3,154,283
NET ASSETS — End of year					$ 1,859,788	$ 3,012,413	$ 4,872,201	$ 3,203,945

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 106,420	$ 57,949	$ 4,702	$ 418,947	$ 588,018
RECEIVABLES:					
Taxes	356,975	-	-	-	356,975
Notes and loans — net	2,906	-	-	82,355	85,261
Federal government	-	-	82,880	-	82,880
Other	10,050	-	-	31,953	42,003
DUE FROM OTHER FUNDS	138,352	-	-	8,409	146,761
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	102,304	-	-	-	102,304
INVESTMENTS	169,838	60,153	7,670	652,590	890,251
OTHER ASSETS	37,144	-	-	-	37,144
TOTAL ASSETS	$ 923,989	$ 119,699	$ 95,252	$ 1,194,254	$ 2,333,194
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 100,685	$ 78,694	$ 69,061	$ 132,563	$ 381,003
Other accrued liabilities	219,554	(34)	-	55,260	274,780
Due To Federal Government	-	-	-	22,800	22,800
Due to other funds	109	98,200	35,604	12,848	146,761
Due to Proprietary funds	-	186,193	-	-	186,193
Due to Component Units	1,261	523,311	-	-	524,572
Deferred revenue	45,334	-	-	-	45,334
Payable from restricted assets — matured bonds and interest payable	-	-	-	326	326
TOTAL LIABILITIES	366,943	886,364	104,665	223,797	1,581,769
FUND BALANCES:					
Restricted	-	-	-	21,582	21,582
Committed	-	-	-	600,125	600,125
Assigned	210,164	-	(9,413)	348,750	549,501
Unassigned	346,882	(766,665)	-	-	(419,783)
Total fund balances	557,046	(766,665)	(9,413)	970,457	751,425
TOTAL	$ 923,989	$ 119,699	$ 95,252	$ 1,194,254	$ 2,333,194

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 751,425
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,182,065
Infrastructure	8,720,586
Construction in progress	793,166
Buildings, improvements, and equipment	4,034,685
Accumulated depreciation	(6,937,568)
	8,792,934
Accrued interest and other payables are not recognized in Governmental Funds	(304,997)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as deferred revenue and settlement receivables	138,497
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(4,987,544)
Accrued vacation payable	(215,599)
Revenue bonds payable	(378,625)
Reserve for losses and loss adjustment costs	(153,520)
Other postemployment benefit liability	(1,975,409)
Long-term transactions with component units	293,146
Capital lease obligations	(100,520)
	(7,518,071)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,859,788

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,507,980	$ -	$ -	$ -	$ 2,507,980
Net income tax — corporations and individuals	1,473,188	-	-	-	1,473,188
Public service companies tax	117,940	-	-	-	117,940
Transient accommodations tax	59,839	-	-	1,000	60,839
Tobacco and liquor taxes	154,190	-	-	19,661	173,851
Liquid fuel tax	-	-	-	91,265	91,265
Tax on premiums of insurance companies	139,090	-	-	1,496	140,586
Vehicle weight and registration tax	-	-	-	59,476	59,476
Rental motor/tour vehicle surcharge tax	-	-	-	43,892	43,892
Franchise tax	31,682	-	-	2,000	33,682
Other	43,601	-	-	24,198	67,799
Total taxes	4,527,510	-	-	242,988	4,770,498
Interest and investment income	24,485	-	-	31,369	55,854
Charges for current services	109,048	-	-	239,060	348,108
Intergovernmental	13,096	-	1,057,797	1,496,373	2,567,266
Rentals	462	-	-	22,857	23,319
Fines, forfeitures, and penalties	23,944	-	-	10,768	34,712
Licenses and fees	7,179	-	-	34,378	41,557
Revenues from private sources	14,172	-	-	40,685	54,857
Other	208,208	-	1,917	133,193	343,318
Total revenues	4,928,104	-	1,059,714	2,251,671	8,239,489
EXPENDITURES:					
Current:					
General government	353,124	56,737	-	77,987	487,848
Public safety	259,086	9,317	-	155,313	423,716
Highways	-	180,757	-	196,023	376,780
Conservation of natural resources	28,119	8,123	-	57,358	93,600
Health	461,894	38,380	-	257,208	757,482
Welfare	761,208	474	1,102,294	662,767	2,526,743
Lower education	1,694,529	146,916	-	366,858	2,208,303
Higher education	502,424	204,956	-	-	707,380
Other education	5,299	-	-	8,719	14,018
Culture and recreation	38,682	42,601	-	36,023	117,306
Urban redevelopment and housing	82	5,927	-	67,780	73,789
Economic development and assistance	22,997	6,468	-	128,639	158,104
Housing	20,758	40,594	-	-	61,352
Other	6,722	-	-	5,501	12,223
Debt service	-	-	-	457,981	457,981
Total expenditures	4,154,924	741,250	1,102,294	2,478,157	8,476,625
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	773,180	(741,250)	(42,580)	(226,486)	(237,136)
OTHER FINANCING SOURCES (USES):					
Other financing sources — other	37,889	-	-	-	37,889
Transfers in	126,695	115,230	12,761	666,747	921,433
Transfers out	(413,652)	(30,865)	(2,610)	(474,306)	(921,433)
Total other financing (uses) sources	(249,068)	84,365	10,151	192,441	37,889
NET CHANGE IN FUND BALANCES	524,112	(656,885)	(32,429)	(34,045)	(199,247)
FUND BALANCES — Beginning of year	32,934	(109,780)	23,016	1,004,502	950,672
FUND BALANCES — End of year	$ 557,046	$ (766,665)	$ (9,413)	$ 970,457	$ 751,425

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (199,247)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	415,818
Depreciation expense	(363,288)
Excess of capital outlay over depreciation expense	52,530
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from capital lease financing transactions	(37,889)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	191,244
Capital lease payments	1,754
Total long-term debt repayment	192,998
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(9,637)
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	24,954
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(629,734)
Change in accrued vacation payable	(3,496)
Change in HHFDC long-term liability	3,989
Change in reserve for losses and loss adjustment costs	(1,808)
	(631,049)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (607,340)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 494,704	$ 109,557	$ 3,466	$ 150,606	$ 758,333
Restricted assets — cash and short-term investments	-	29,290	-	-	29,290
Receivables:					
Taxes	-	-	86,750	-	86,750
Accounts and accrued interest (net of allowance for doubtful accounts of $4,142)	29,403	7,942	-	1,017	38,362
Promissory note receivable (net of allowance for doubtful accounts of $7,917)	7	-	-	32,015	32,022
Federal government	11,227	6,214	-	-	17,441
Restricted assets — passenger facility charges	-	-	-	-	-
Other	405	375	-	2,192	2,972
Premiums	-	-	-	31,332	31,332
Due from Capital Projects Fund	-	186,193	-	-	186,193
Restricted assets — investments — repurchase agreements and certificates of deposit	67,737	-	-	-	67,737
Materials and supplies inventory	226	250	-	-	476
Prepaid expenses and other assets	-	825	-	11,752	12,577
Total current assets	603,709	340,646	90,216	228,914	1,263,485
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	326,930	258,285	-	-	585,215
Construction in progress	301,021	42,702	-	-	343,723
Buildings and improvements	2,524,254	614,890	-	-	3,139,144
Equipment	226,332	17,318	-	14,847	258,497
	3,378,537	933,195	-	14,847	4,326,579
Less accumulated depreciation	(1,665,736)	(243,756)	-	(7,402)	(1,916,894)
Net capital assets	1,712,801	689,439	-	7,445	2,409,685
Investments	96,893	-	-	-	96,893
Bond issue costs — net	4,334	3,868	-	-	8,202
Promissory note receivable	-	-	-	349,451	349,451
Restricted assets — net direct financing leases	32,052	-	-	-	32,052
Restricted assets — other, cash, and investments	438,909	77,992	-	-	516,901
Other	8,603	552	-	37,984	47,139
Total noncurrent assets	2,293,592	771,851	-	394,880	3,460,323
TOTAL ASSETS	$ 2,897,301	$ 1,112,497	$ 90,216	$ 623,794	$ 4,723,808

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 22,270	$ 8,830	$ 19,113	$ 885	$ 51,098
Payable from restricted assets — contracts payable, accrued interest, and other	41,900	28,297	-	-	70,197
Other accrued liabilities	11,019	-	-	1,423	12,442
Due to primary government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	41,393	41,393
Prepaid airport use charge fund	2,500	-	-	-	2,500
Deferred revenue	4,078	-	-	-	4,078
General obligation bonds payable, current portion	-	1,609	-	-	1,609
Reserve for losses and loss adjustment costs	1,010	191	-	-	1,201
Accrued vacation, current portion	2,942	574	-	68	3,584
Payable from restricted assets — revenue bonds payable	26,205	7,671	-	-	33,876
Premiums payable	-	-	-	19,484	19,484
Total current liabilities	111,924	48,769	19,113	63,253	243,059
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	34,612	-	-	34,612
Accrued vacation	6,382	1,799	-	515	8,696
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	1,004,315	372,433	-	-	1,376,748
Reserve for losses and loss adjustment costs	2,990	680	-	-	3,670
Other postemployment benefit liability	26,963	6,289	-	1,556	34,808
Other	9,802	-	-	-	9,802
Total long-term liabilities	1,050,452	415,813	-	2,071	1,468,336
TOTAL LIABILITIES	1,162,376	464,582	19,113	65,324	1,711,395
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	968,350	500,342	-	7,444	1,476,136
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	315,273	81,301	-	560,320	956,894
UNRESTRICTED	451,302	66,272	71,103	(9,294)	579,383
TOTAL NET ASSETS	$ 1,734,925	$ 647,915	$ 71,103	$ 558,470	$ 3,012,413

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 132,166	$ -	$ -	$ -	$ 132,166
Unemployment compensation tax	-	-	535,243	-	535,243
Aviation fuel tax	4,141	-	-	-	4,141
Airport use charges	60,097	-	-	-	60,097
Rentals	105,814	25,358	-	-	131,172
Services and others	711	58,655	-	-	59,366
Administrative fees	-	-	-	9,566	9,566
Premium revenue - self insurance	-	-	-	243,324	243,324
Other	9,023	1,907	-	2,897	13,827
Total operating revenues	311,952	85,920	535,243	255,787	1,188,902
OPERATING EXPENSES:					
Personnel services	122,858	14,815	-	2,034	139,707
Depreciation and amortization	94,739	18,362	-	1,619	114,720
Repairs and maintenance	29,172	2,657	-	24	31,853
Airports operations	46,185	-	-	-	46,185
Harbors operations	-	13,955	-	-	13,955
Fireboat operations	-	1,917	-	-	1,917
General administration	16,854	6,223	-	6,246	29,323
Unemployment compensation	-	-	561,548	-	561,548
Claims	-	-	-	240,392	240,392
Other	308	-	-	31	339
Total operating expenses	310,116	57,929	561,548	250,346	1,179,939
Operating (loss) income	1,836	27,991	(26,305)	5,441	8,963
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	21,080	5,890	386	6,231	33,587
Interest expense	(43,734)	(20,303)	-	-	(64,037)
Federal grants	5,034	-	-	-	5,034
Loss on disposal of capital assets	(518)	(2,123)	-	-	(2,641)
Passenger facility charges	31,374	-	-	-	31,374
Other	44,158	-	-	-	44,158
Total nonoperating revenues (expenses)	57,394	(16,536)	386	6,231	47,475
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	59,230	11,455	(25,919)	11,672	56,438
CAPITAL CONTRIBUTIONS	28,661	9,426	-	32,203	70,290
CHANGE IN NET ASSETS	87,891	20,881	(25,919)	43,875	126,728
NET ASSETS — Beginning of year	1,647,034	627,034	97,022	514,595	2,885,685
NET ASSETS — End of year	$ 1,734,925	$ 647,915	$ 71,103	$ 558,470	$ 3,012,413

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 300,872	$ 88,907	$ -	$ -	$ 389,779
Cash received from taxes	-	-	250,443	-	250,443
Cash received from employer and employees for premiums and benefits	-	-	-	241,282	241,282
Cash paid to suppliers	(144,263)	(24,915)	-	(3,588)	(172,766)
Cash paid to employees	(63,071)	(14,164)	-	(3,732)	(80,967)
Cash paid for unemployment compensation	-	-	(562,048)	-	(562,048)
Cash paid for premiums and benefits payable	-	-	-	(228,816)	(228,816)
Reserves returned by insurance carriers	-	-	-	618	618
Interest income from notes receivable	-	-	-	3,409	3,409
Administrative loan fees	-	-	-	4,075	4,075
Principal repayments on notes receivable	-	-	-	30,031	30,031
Disbursement of note receivable proceeds	-	-	-	(42,857)	(42,857)
Other cash receipts	-	-	262,730	-	262,730
Net cash provided by (used in) operating activities	93,538	49,828	(48,875)	422	94,913
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	6,047	-	-	26,270	32,317
Disbursements of federal operating grants	-	-	-	(14,292)	(14,292)
Other	-	-	18,231	-	18,231
Net cash provided by noncapital financing activities	6,047	-	18,231	17,850	42,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(62,875)	(31,584)	-	-	(94,459)
Repayment of general obligation and revenue bonds principal	(23,615)	(51,431)	-	-	(75,046)
Payment for loan to primary government	-	(186,193)	-	-	(186,193)
Proceeds from bond issuance	-	201,390	-	-	201,390
Net premiums received on bonds	-	256	-	-	256
Bond issuance costs paid	-	(1,897)	-	-	(1,897)
Interest paid on bonds	(44,293)	(14,933)	-	-	(59,226)
Other interest paid	-	(125)	-	-	(125)
Proceeds from passenger facility charges program	31,766	-	-	-	31,766
Proceeds from rental car customer facility charges program	40,634	-	-	-	40,634
Payments from rental car customer facility charges program	(10,705)	-	-	-	(10,705)
Payments from passenger facility charges program	(44,890)	-	-	-	(44,890)
Proceeds from federal, state, and capital grants	30,783	9,426	-	-	40,209
Net cash used in capital and related financing activities	(83,195)	(75,091)	-	-	(158,286)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(290,679)	-	-	-	(290,679)
Proceeds from sales and maturities of investments	290,679	-	-	-	290,679
Interest from and change in fair value of investments	20,746	7,257	386	7,801	36,190
Net cash provided by investing activities	20,746	7,257	386	7,801	36,190
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,136	(18,006)	(30,258)	26,073	14,945
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	964,214	234,845	33,724	124,533	1,357,316
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,001,350	$ 216,839	$ 3,466	$ 150,606	$ 1,372,261

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 1,836	$ 27,991	$ (26,305)	$ 5,441	$ 8,963
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	(2,922)	-	-	(2,922)
Depreciation	94,739	18,224	-	1,619	114,582
Other Amortization	-	138	-	-	138
Bad debt expense	(2,409)	-	-	-	(2,409)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	5,047	-	-	-	5,047
Premium reserves held by insurance companies	-	-	-	(229)	(229)
Decrease (increase) in assets:	-	-	-	-	-
Receivables	(7,890)	(4,520)	(22,072)	(20,031)	(54,513)
Inventory of materials and supplies	2	(4)	-	-	(2)
Prepaid expenses	-	(801)	-	(61)	(862)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	(1,256)	2,187	(498)	406	839
Other accrued liabilities	9,773	1,344	-	10,218	21,335
Prepaid airport use charge fund	(4,055)	-	-	-	(4,055)
Deferred revenue	(2,249)	-	-	-	(2,249)
Due to the Airports Division	-	8,191	-	-	8,191
Accrued interest on loans receivable	-	-	-	3,059	3,059
Net cash provided by (used in) operating activities	$ 93,538	$ 49,828	$ (48,875)	$ 422	$ 94,913

Supplemental Information

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ (249)	$ (356)	$ -	$ -	$ (605)
Principal payments relating to special facility revenue bonds	1,685	-	-	-	1,685
Interest payments relating to special facility revenue bonds	2,031	-	-	-	2,031
Development capital assets from other sources	-	9,426	-	-	9,426
Purchase of capital assets included in contracts payable	17,625	-	-	-	17,625
Capitalized interest	9,584	-	-	-	9,584
Write off of property, plant, and equipment	8,710	-	-	-	8,710

See accompanying notes to basic financial statements. (Concluded)

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STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and cash equivalents	$ 391,666
Receivables — taxes	8,584
Due from individuals, businesses, and counties	83,061
Investments	110,261
Total assets	$ 593,572
LIABILITIES AND NET ASSETS:	
Vouchers payable	$ 71,357
Due to individuals, businesses, and counties	522,215
Total liabilities	$ 593,572

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

ASSETS	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
CASH AND CASH EQUIVALENTS	$ 71,709	$ 223,418	$ 53,200	$ 63,026
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $52,471)	97,720	11,462	770	70,894
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	13,090	55,192	-	-
Federal government	-	-	5,598	-
Other	-	2,724	1,894	7,255
DUE FROM PRIMARY GOVERNMENT	794	6,500	39,289	57,542
INVESTMENTS	330,936	761	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	24,038	-	-
Materials and supplies	12,954	-	912	17,848
PREPAID EXPENSES AND OTHER ASSETS	10,686	327	1,767	-
	537,889	324,422	103,430	216,565
RESTRICTED ASSETS:				
Cash and cash equivalents	-	36,009	-	1,871
Investments	-	231,709	-	-
Deposits, funded reserves, and other	-	470	5,829	-
Total restricted assets	-	268,188	5,829	1,871
CAPITAL ASSETS:				
Land and land improvements	102,154	43,355	25,340	6,484
Infrastructure	101,502	-	-	-
Construction in progress	264,415	-	36,341	21,486
Buildings, improvements, and equipment	2,040,854	158,515	562,379	537,206
Less accumulated depreciation	(995,788)	(99,298)	(325,452)	(274,073)
Total capital assets — net	1,513,137	102,572	298,608	291,103
OTHER ASSETS				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,931)	29,020	326,902	1,879	-
Due from Primary Government	418,309	13,771	-	-
Investments	719,557	6,872	-	-
Other assets	29,359	1,449	594	2,709
Total other assets	1,196,245	348,994	2,473	2,709
TOTAL ASSETS	$ 3,247,271	$ 1,044,176	$ 410,340	$ 512,248

See accompanying notes to the basic financial statements.

	Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
	$ 10,361	$ 34,802	$ 4,687	$ 461,203
	-	458	496	181,800
	-	-	-	68,282
	-	-	-	5,598
	10,233	-	42,233	64,339
	-	2,138	-	106,263
	5,787	-	46,735	384,219
	-	-	-	24,038
	-	-	-	31,714
	754	1,555	-	15,089
	27,135	38,953	94,151	1,342,545
	11,737	-	-	49,617
	22,660	-	-	254,369
	-	-	-	6,299
	34,397	-	-	310,285
	131,497	151,218	-	460,048
	-	43,125	-	144,627
	-	12,831	-	335,073
	215,344	19,257	-	3,533,555
	(104,566)	(48,523)	-	(1,847,700)
	242,275	177,908	-	2,625,603
	-	2,539	-	360,340
	-	-	-	432,080
	-	-	-	726,429
	-	381	-	34,492
	-	2,920	-	1,553,341
	$ 303,807	$ 219,781	$ 94,151	$ 5,831,774

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 64,430	$ 1,082	$ 7,734	$ 72,071
Other accrued liabilities	101,102	11,995	4,147	-
Due to Primary Government	6,151	-	-	2,500
Deferred revenue	35,905	23,729	-	-
Estimated future costs of land sold	-	35,209	-	-
Notes, mortgages, and installment contracts payable	-	56	-	9,246
Accrued vacation and retirement benefits payable	24,674	-	-	15,604
Revenue bonds payable -- Net	13,755	56,206	-	-
Reserve for losses and loss adjustment costs	4,225	-	-	3,311
Capital lease obligations	-	-	-	7,811
Deferred commitment fees	-	121	-	-
Other liabilities	-	1,782	2,555	2,044
Total current liabilities	250,242	130,180	14,436	112,587
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,637	-	26,523
Accrued vacation and retirement benefits payable	44,301	-	-	26,524
Revenue bonds payable --Net	623,290	406,102	-	-
Reserve for losses and loss adjustment costs	8,963	-	-	11,898
Premium on bonds payable	6,621	-	-	-
Capital lease obligations	-	-	-	17,433
Other liabilities	9,185	2,485	1,663	24,394
Due to Primary Government	881	-	-	20,800
Other postemployment benefit liability	318,143	1,811	7,032	143,025
Total noncurrent liabilities	1,011,384	416,035	8,695	270,597
TOTAL LIABILITIES	1,261,626	546,215	23,131	383,184
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,182,287	29,920	298,608	238,189
RESTRICTED	797,852	252,224	50,200	903
Unrestricted (DEFICIT)	5,506	215,817	38,401	(110,028)
TOTAL NET ASSETS	$ 1,985,645	$ 497,961	$ 387,209	$ 129,064

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 4,829	$ 727	$ 3	$ 150,876
157	214	-	117,615
19,060	-	73,004	100,715
-	81	-	59,715
-	-	-	35,209
-	-	-	9,302
122	87	-	40,487
-	-	-	69,961
-	-	-	7,536
-	-	-	7,811
-	-	-	121
-	390	-	6,771
24,168	1,499	73,007	606,119
-	-	-	32,160
362	269	-	71,456
-	-	-	1,029,392
-	-	-	20,861
-	-	-	6,621
-	-	-	17,433
-	25,729	-	63,456
286,826	-	-	308,507
1,009	804	-	471,824
288,197	26,802	-	2,021,710
312,365	28,301	73,007	2,627,829
(16,066)	177,908	-	1,910,846
7,508	1,931	-	1,110,618
-	11,641	21,144	182,481
$ (8,558)	$ 191,480	$ 21,144	$ 3,203,945

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,520,543	$ 75,602	$ 123,655	$ 600,193
PROGRAM REVENUES:				
Charges for services	368,715	40,562	20,442	488,383
Operating grants and contributions	502,414	54,349	70,821	1,667
Capital grants and contributions	-	-	24,242	29,629
Total program revenues	871,129	94,911	115,505	519,679
Net program (expenses) revenues	(649,414)	19,309	(8,150)	(80,514)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	47,307	4,125	-	450
Payments from (to) the State	725,416	35,514	21,990	81,967
Other	16,389	-	(17,927)	(1,696)
Net general revenues	789,112	39,639	4,063	80,721
Change in net assets	139,698	58,948	(4,087)	207
NET ASSETS — Beginning of year	1,845,947	439,013	391,296	128,857
NET ASSETS — End of year	$ 1,985,645	$ 497,961	$ 387,209	$ 129,064

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 113,684	$ 6,791	$ 4	$ 2,440,472
12,462	8,424	-	938,988
-	-	-	629,251
-	-	-	53,871
12,462	8,424	-	1,622,110
(101,222)	1,633	(4)	(818,362)
430	1,361	2,588	56,261
121,783	1,659	(169,631)	818,698
(2,750)	(951)	-	(6,935)
119,463	2,069	(167,043)	868,024
18,241	3,702	(167,047)	49,662
(26,799)	187,778	188,191	3,154,283
$ (8,558)	$ 191,480	$ 21,144	$ 3,203,945

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the "State") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State's significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State ("Governor"). The discretely presented Component Units are as follows:

University of Hawaii — The University of Hawaii (UH) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 278 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, the University offers more than 190 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

Hawaii Housing Finance and Development Corporation — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — Act 196, SLH 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentally and agency of the State of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health – Division of Community Hospitals to HHSC. HHSC operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Hoʻola Hamakua
Kaʻu Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia
Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the State.

In June 2007, the State legislature passed Act 29, S.B. 1792. This Act, which became effective July 1, 2007, required the establishment of a seven to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-

member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

In June 2011, the Legislature passed Act 126, S.B. 1300, effective July 1, 2011, which reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the Director of the Department of Health from non-voting to voting member.

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State of Hawaii which is attached to DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako, Kalaeloa, and He'eia Community Development Districts.

The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State of Hawaii (State).

The HCDA is comprised of 21 (13 regular members, five and three members who vote only on Kalaeloa and He'eia matters, respectively) voting members who, as a body, oversees the HCDA's operations and establishes policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 21 member board is comprised of the following:

- 13 members that vote on issues related to Kaka`ako and Kalaeloa:
    - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
    - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
    - Four at-large members appointed by the Governor;
    - The Director of Budget and Finance, as an Ex Officio voting member;
    - The Director of DBEDT, as an Ex Officio voting member;
    - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
    - The Director of Transportation, as an Ex Officio voting member.
- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
    - The Chairperson of the Hawaiian Homes Commission;
    - The Director of the City and County of Honolulu Department of Planning and Permitting;
    - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
    - One member who is a Hawaiian Cultural Specialist.
- Three members appointed by the Governor that vote only on issues related to He'eia:
    - All three members shall be residents of the He'eia district or the Koolaupoko district

Hawaii Hurricane Relief Fund — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
    - Two members appointed by the Governor;
    - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
    - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The Government-Wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

Government-Wide Financial Statements — The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division ("Harbors") — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Effective July 1, 2010, the State implemented GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- *Restricted* — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- *Committed* — Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.
- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* — Residual balances that are not contained in the other classifications.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $15,000,000 each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25,000,000 per occurrence and $29,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Deferred Compensation Plan — The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 57 — The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers, and Agent Multiple-Employer Plans*. The provisions related to the use and reporting of the alternative measurement method were adopted and had no impact to the State's financial statements. The State is currently evaluating the impact of the provisions related to the frequency and timing of measurements which are effective for periods beginning after June 15, 2011.

GASB Statement No. 59 — The GASB issued Statement No. 59, *Financial Instruments Omnibus*, effective June 15, 2009. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The State has determined that the provision does not have a significant impact to the State's financial statements.

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* which will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB Statement No. 61 will have on its financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which will become effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 64 — The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which will become effective for financial statements for periods beginning after June 15, 2011. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The State does not expect that this Statement will have a material effect on its financial statements.

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2011, was $1,346,351,000 and $742,873,000, respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2011, was $391,666,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $2,116,754,000 at June 30, 2011. Of that amount, $2,116,643,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $2,636,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments — The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2011, the State had material investments in repurchase agreements. According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the proprietary fund and fiduciary fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2011 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	Less than 1	1–5	>5
Investments — Primary Government:				
Student loan auction rate securities	$ 231,465	$ -	$ -	$ 231,465
Certificates of deposit	169,148	169,148	-	-
U.S. government securities	382,808	298,590	76,562	7,656
Repurchase agreements	106,830	106,830	-	-
	$ 890,251	$ 574,568	$ 76,562	$ 239,121
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 28,668	$ -	$ -	$ 28,668
Certificates of deposit	20,950	20,950	-	-
U.S. government securities	47,412	36,982	9,482	948
Repurchase agreements	13,231	13,231	-	-
	$ 110,261	$ 71,163	$ 9,482	$ 29,616

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2011, the State recorded a fair value adjustment of $38,800,000 to increase the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2011.

On November 23, 2010, the State and Citigroup Global Market Inc. ("Citi") reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

As of June 30, 2011, the State's auction rate securities portfolio had a cost of $558,500,000 and an estimated fair value of $545,400,000. The estimated fair value is comprised of $523,700,000 attributable to the auction rate securities and $21,700,000 million attributable to the fair value of the Citi settlement agreement.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2011, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
Capital assets not being depreciated:				
Land and land improvements	$ 2,128,686	$ 53,568	$ (189)	$ 2,182,065
Construction in progress	689,729	360,893	(257,456)	793,166
Total capital assets not being depreciated	2,818,415	414,461	(257,645)	2,975,231
Capital assets being depreciated:				
Infrastructure	8,654,609	65,977	-	8,720,586
Buildings and improvements	3,501,653	172,347	(477)	3,673,523
Equipment	350,164	23,904	(12,906)	361,162
Total capital assets being depreciated	12,506,426	262,228	(13,383)	12,755,271
Less accumulated depreciation:				
Infrastructure	(4,456,796)	(232,774)	-	(4,689,570)
Buildings and improvements	(1,845,837)	(107,927)	234	(1,953,530)
Equipment	(281,804)	(22,587)	9,923	(294,468)
Total accumulated depreciation	(6,584,437)	(363,288)	10,157	(6,937,568)
Total capital assets	$ 8,740,404	$ 313,401	$ (260,871)	$ 8,792,934

	Business-Type Activities			
	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
Capital assets not being depreciated:				
Land and land improvements	$ 585,015	$ 8,391	$ (8,191)	$ 585,215
Construction in progress	252,298	146,163	(54,738)	343,723
Total capital assets not being depreciated	837,313	154,554	(62,929)	928,938
Capital assets being depreciated:				
Buildings and improvements	3,102,176	39,404	(2,436)	3,139,144
Equipment	251,219	15,351	(8,073)	258,497
Total capital assets being depreciated	3,353,395	54,755	(10,509)	3,397,641
Less accumulated depreciation:				
Buildings and improvements	(1,639,840)	(102,340)	1,406	(1,740,774)
Equipment	(170,259)	(12,242)	6,381	(176,120)
Total accumulated depreciation	(1,810,099)	(114,582)	7,787	(1,916,894)
Total capital assets	$ 2,380,609	$ 94,727	$ (65,651)	$ 2,409,685

Depreciation expense for the fiscal year ended June 30, 2011, was charged to functions/programs of the Primary Government as follows:

	2011
Governmental activities:	
Highways	$ 218,013
Lower education	64,358
General government	24,287
Public safety	13,295
Urban redevelopment and housing	20,092
Conservation of natural resources	9,479
Health	6,073
Economic development and assistance	4,383
Welfare	2,217
Culture and recreation	1,091
Total depreciation expense — governmental activities	$ 363,288
Business-type activities:	
Airports	$ 94,739
Harbors	18,224
DWTLF	72
EUTF	1,547
Total depreciation expense — business-type activities	$ 114,582

4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds - Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1993; Series CH, issued November 1, 1993; Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, DU, DV and DW, issued November 24, 2009 and Series DY, issued February 18, 2010, contain call provisions. Stated interest rates range from .2% to 8%.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2011, $610,965,000 of bonds outstanding is considered defeased.

At June 30, 2011, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,873,620
Noncallable	1,150,145
Total general obligation bonds outstanding	5,023,765
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	(36,221)
Amount recorded in the governmental activities of the Primary Government	$ 4,987,544

A summary of general obligation bonds outstanding by series as of June 30, 2011, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BW	March 1, 1992	6.250%	March 1, 2012	$ 100,000	$ 5,555
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	10,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	41,655
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CV	August 1, 2001	4.800%–5.500%	August 1, 2011–2021	300,000	67,790
CW	August 1, 2001	4.300%–5.500%	August 1, 2011–2015	156,750	68,240
CX	February 15, 2002	4.300%–5.500%	February 1, 2012–2022	250,000	90,955
CY	February 15, 2002	5.500%–5.750%	February 1, 2012–2015	319,290	160,500
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	46,305
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	178,870
DB	September 16, 2003	4.000%–5.250%	September 1, 2011–2016	188,650	127,410
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	169,885
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	205,085
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	206,600
DG	June 15, 2005	5.000%	July 1, 2011–2017	722,575	588,860
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	306,490
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	320,990
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	373,920
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	4.260%–4.670%	May 1, 2012–2014	25,000	13,200
DN	December 16, 2008	3.000%–5.500%	August 1, 2012–2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011–2018	101,825	101,825
DP	December 16, 2008	4.150%–5.680%	August 1, 2011–2016	26,000	26,000
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013–2029	500,000	490,220
DR	June 23, 2009	3.000%–5.000%	June 1, 2014–2019	225,410	203,910
DS	November 5, 2009	0.200%–1.450%	September 15, 2014–2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014–2019	204,140	204,140
DU	November 24, 2009	4.000%	November 1, 2011	6,260	6,260
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
DW	November 24, 2009	2.250%–5.000%	November 1, 2013	36,425	36,425
DX	February 18, 2010	3.000%–5.530%	February 1, 2015–2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015–2020	221,625	221,625
					$ 5,023,765

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2011 is as follows (amounts expressed in thousands):

Balance — July 1, 2010	$ 252,387
Current-year amortization	(37,972)
Balance — June 30, 2011	$ 214,415

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 286,331	$ 238,059	$ 524,390
2013	369,552	223,167	592,719
2014	384,967	205,746	590,713
2015	434,911	187,798	622,709
2016	407,688	166,696	574,384
2017—2021	1,650,509	561,176	2,211,685
2022—2026	1,056,990	248,416	1,305,406
2027—2030	396,596	43,154	439,750
	$4,987,544	$ 1,874,212	$6,861,756

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 1,609	$ 1,772	$ 3,381
2013	1,678	1,702	3,380
2014	1,758	1,623	3,381
2015	1,844	1,537	3,381
2016	1,932	1,449	3,381
2017—2021	11,161	5,743	16,904
2022—2026	14,210	2,694	16,904
2027—2028	2,029	144	2,173
	$ 36,221	$ 16,664	$ 52,885

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2011, was $304,984,000.

At June 30, 2011, general obligation bonds authorized but unissued were approximately $1,442,761,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 3% to 6% to finance the construction of certain DHHL capital improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

The bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3.5% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 4% to 5% and are payable semiannually on January and July 1 through July 2022.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates of 5.5% and mature in annual installments through July 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 2003; and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2011, bonds outstanding considered defeased, amounted to $40,955,000.

The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2011 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1998	July 1, 1998	5.500%	July 1, 2017–July 1, 2018	$ 94,920	$ 27,580
2001	October 25, 2001	4.00%–5.00%	July 1, 2011–2022	70,000	8,485
2003	April 15, 2003	3.50%–5.25%	July 1, 2011–2013	44,940	15,365
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2011–2025	60,000	49,065
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2011–2021	123,915	119,350
2008	December 17, 2008	4.00%–6.00%	January 1, 2012–2029	125,175	117,575
DHHL:					
2009	April 2, 2009	3.00%–6.00%	April 1, 2012–2039	42,500	41,205
					$ 378,625

A summary of the revenue bond premium activities for fiscal year 2011 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2010	$ 11,744
Current-year amortization	(2,403)
Balance — June 30, 2011	$ 9,341

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 22,410	$ 19,072	$ 41,482
2013	23,340	18,080	41,420
2014	24,440	16,957	41,397
2015	25,840	15,757	41,597
2016	27,100	14,477	41,577
2017–2021	126,955	51,358	178,313
2022–2026	73,800	26,755	100,555
2027–2031	36,030	10,395	46,425
2032–2036	10,660	4,392	15,052
2037–2039	8,050	985	9,035
	$ 378,625	$ 178,228	$ 556,853

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102% to 100% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2011 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000B, refunding	5.00%–6.00%	2020	$ 261,465	$ 13,550
2001, refunding	4.00%–5.75%	2021	423,255	334,250
2010A, refunding	2.00%–5.25%	2039	478,980	478,980
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
			$ 1,329,700	992,780
Add unamortized premium				15,922
Less:				
Deferred loss on refunding				(10,021)
Current portion				(25,370)
				$ 973,311

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2011, bonds outstanding considered defeased amounted to $16,845,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2011, $223,602,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranging from 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. Of the net proceeds of $656,137,000 (after the payment of $3,573,000 in underwriting fees, insurance and other costs), along with an additional $3,069,000 from the debt service reserve account, $204,061,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,000. This difference is being charged to operations over the next 10 years.

Airports Special Facility Revenue Bonds — Airports entered into four special facility lease agreements with: Delta Airlines, Inc. in 1987, two with Continental Airlines, Inc. ("Continental") in November 1997 and

July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. ("Sky Chefs") effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $31,840,000 at June 30, 2011.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2011.

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part; refund $18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds bore interest at 10.125% and were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2011, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 835	$ -	$ 835
Noncurrent portion	9,280	21,725	31,005
	$ 10,115	$ 21,725	$ 31,840

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 101% to 100% of principal.

In November 2010, the Harbors Division issued $201,390,000 of Revenue Bonds, consisting of $164,275,000 of Series A of 2010 Revenue Bonds and $37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of $199,749,000 (including net premiums of $256,000 and after payment of $1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11,455,000.

The net proceeds from the Series B of 2010 Revenue Bonds, along with $2,180,000 from the Harbors Division's cash accounts, were used to advance refund a portion ($38,930,000) of the Series A of 2000 revenue Bonds previously issued and for a redemption premium of $389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of $1,599,000. This difference is being charged to operations over the next 11 years. However, due to the advance refunding, the Harbors Division decreased its total debt service payments over the next 11 years by $2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,916,000.

The following is a summary of the Harbors' revenue bonds as of June 30, 2011 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2011	Current: Principal Due January 1, 2012	Current: Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	575	-	575	10,010
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,290	1,290	22,075
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,525	2,525	83,065
2007	July 1, 2027	4.25%–5.50%	51,645	1,540	-	1,540	46,610
2010	July 1, 2040	3.00%–5.75%	201,390	1,885	-	1,885	199,505
			$ 505,460	4,000	3,815	7,815	375,935
Add unamortized premium				-	-	347	1,749
Less:							
Unamortized discount				-	-	(2)	(17)
Unamortized deferred loss on refunding				-	-	(489)	(5,234)
				$ 4,000	$ 3,815	$ 7,671	$ 372,433

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 33,876	$ 73,159	$ 107,035
2013	40,625	71,078	111,703
2014	59,770	68,420	128,190
2015	61,045	65,163	126,208
2016	68,030	61,709	129,739
2017–2021	397,025	248,392	645,417
2022–2026	183,150	169,136	352,286
2027–2031	201,300	119,836	321,136
2032–2036	175,890	72,006	247,896
2037–2041	189,913	21,562	211,475
	$ 1,410,624	$ 970,461	$ 2,381,085

The above debt service requirements are set forth based upon funding requirements and are presented before unamortized premiums, discounts, and deferred loss on refunding, aggregating $2,254,000.

Revenue Bonds Authorized, but Unissued — At June 30, 2011, revenue bonds authorized, but unissued were approximately $4,811,933,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2011, amounted to $1,771,388,000. At June 30, 2011, special purpose revenue bonds of $1,567,640,000 were authorized, but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2011.

6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities				
	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011	Due Within One Year
General obligation bonds payable — net	$ 5,157,198	$ -	$ (169,654)	$ 4,987,544	$ 286,331
Accrued vacation payable	212,103	84,968	(81,472)	215,599	62,619
Revenue bonds payable	400,215	-	(21,590)	378,625	22,410
Reserve for losses and loss adjustment costs	151,712	30,134	(28,326)	153,520	26,361
Other postemployment benefits liability	1,345,675	838,127	(208,393)	1,975,409	-
Capital lease obligations	64,385	37,889	(1,754)	100,520	5,180
Total	$ 7,331,288	$ 991,118	$ (511,189)	$ 7,811,217	$ 402,901

	Business-Type Activities				
	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011	Due Within One Year
General obligation bonds payable — net	$ 37,362	$ -	$ (1,141)	$ 36,221	$ 1,609
Accrued vacation and retirement benefits payable	11,215	6,481	(5,416)	12,280	3,584
Revenue bonds payable	1,285,792	202,598	(77,766)	1,410,624	33,876
Reserve for losses and loss adjustment costs	4,671	1,338	(1,138)	4,871	1,201
Other postemployment benefits liability	28,496	13,935	(7,623)	34,808	-
Other	11,309	5,048	(4,055)	12,302	2,500
	$ 1,378,845	$ 229,400	$ (97,139)	$ 1,511,106	$ 42,770

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 83%, 16%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2011.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2011 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 12,848	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	35,604	-
Debt Service Fund	-	109
	138,352	109
Capital Projects Fund:		
General Fund	-	89,900
Special Revenue Funds	-	8,300
Proprietary Fund	1,597	186,193
	1,597	284,393
Med-Quest Special Revenue Fund:		
General Fund	-	35,604
Nonmajor Governmental Funds:		
General Fund	109	12,848
Capital Projects Fund	8,300	-
	8,409	12,848
Proprietary Fund:		
Harbors	186,193	1,597
	$ 334,551	$ 334,551

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

The State Director of Finance is permitted under Section 34-24, Hawaii Revised Statutes, to make temporary non-interest bearing loans when there are monies in the general, special, or revolving funds of the State which in the Director of Finance's judgment are in excess of immediate state requirements. During the year ended June 30, 2011, the State Director of Finance informed the Department of Accounting and General Services that unspent Harbor Revenue Bond proceeds included in the State of Hawaii's Bond Fund in the amount of $186,193,000 were used as a temporary non-interest bearing loan to cover the State's general obligation bond project expenditures in fiscal year 2011. As of December 7, 2011, the State of Hawaii completed a sale of $800,000,000 in general obligation bonds and used a portion of the bond proceeds to repay the entire temporary loan from the Harbors Division. Accordingly, this temporary loan from Harbors to the State is presented as a current restricted asset in the Harbors Division financial statements and a current liability in the Capital Projects Fund of the State of Hawaii.

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2011, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 126,695	$ 413,652
Capital Projects Fund — Nonmajor Governmental Funds	115,230	30,865
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	12,761	2,610
Nonmajor Governmental Funds:		
General Fund	407,095	126,695
Capital Projects Fund	30,865	115,230
Other Nonmajor Governmental Funds	228,787	232,381
	666,747	474,306
	$ 921,433	$ 921,433

The General Fund transferred approximately $404,831,000 to the Nonmajor Governmental Funds for debt service payments and approximately $2,249,000 to subsidize various Special Revenue Funds programs. Approximately, $115,232,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2011, were as follows (amounts expressed in thousands):

Fiscal Year	
2012	$ 14,371
2013	10,482
2014	8,000
2015	5,889
2016	3,615
2017-2021	6,818
2022-2024	1,016
Total future minimum lease payments	$ 50,191

Rent expenditures for operating leases for the fiscal year ended June 30, 2011, amounted to approximately $38,727,000.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety of the State of Hawaii and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commence on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services of the State of Hawaii and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capital District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding certificates of participation. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2% - 5%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2012	$ 9,076
2013	10,308
2014	10,271
2015	10,563
2016	10,901
2017–2021	43,020
2022–2026	29,504
2027–2031	21,750
2032	1,712
Total future minimum lease payments	147,105
Less amount representing interest	(46,585)
Present value of net minimum lease payments	100,520
Less current portion	(5,180)
Noncurrent portion	$ 95,340

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal 1996 through 2010 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release, which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $4,141,000 for fiscal 2011.

Airports — System Rates and Charges

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees amounted to $63,829,502 for fiscal 2011. Airport landing fees are shown net of aviation fuel tax credits of $3,732,573 for fiscal year 2011, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $60,096,929 for fiscal year 2011. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 39% of the Airports landing fees for overseas flights for 2011 and are scheduled to increase 1% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $49,935,000 for fiscal 2011. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $42,529,000 for fiscal 2011, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $25,795,000 for fiscal 2011.

- Airports system support charges amounted to $711,000 for fiscal 2011. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2011, was approximately $32,448,000.

In fiscal year 2006, Airports converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $224,000 at June 30, 2011, is due as follows: $137,000 in 2012, $12,000 in 2013, $12,000 in 2014, and $63,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 28% of total concession fees revenues for the fiscal year ended June 30, 2011.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term).

Harbors — Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement ("Operations Agreement"). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase. The balance owed to the Harbors Division by ATDC as of June 30, 2011 was approximately $7,771,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to Hawaii Lifestyle Retail Properties.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2011, amounted to $25,358,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2011 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	Airports	Harbors	Total
2012	$ 104,900	$ 8,937	$ 113,837
2013	100,489	8,766	109,255
2014	93,987	8,613	102,600
2015	54,484	7,271	61,755
2016	45,312	6,935	52,247
2017–2021	73,617	26,082	99,699
2022–2026	10,668	25,869	36,537
2027–2031	4,866	22,137	27,003
2032–2036	2,065	16,763	18,828
2037–2041	1,499	10,557	12,056
2042–2046	-	7,564	7,564
2047–2051	-	2,702	2,702
2052–2056	-	2,657	2,657
2057–2060	-	947	947
	$ 491,887	$ 155,800	$ 647,687

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2011, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 52,448
Less amount representing interest	(23,811)
	28,637
Cash with trustee and other	3,415
	$ 32,052

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2011, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2012	$ 2,765
2013	2,777
2014	2,778
2015	2,770
2016	2,778
2017–2021	12,326
2022–2026	6,110
2027–2029	23,556
	$ 55,860

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $15,494,000 of amounts due from the department of Hawaiian Homelands (DHHL) related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2011, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by HHSC at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012.

Hawaii Tourism Authority

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State’s full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State’s transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2011, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $258,340,000 and $164,522,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 11,690	$ 14,739	$ 26,429
2013	12,390	14,038	26,428
2014	13,135	13,294	26,429
2015	13,920	12,506	26,426
2016	14,755	11,671	26,426
2017-2021	88,180	43,962	132,142
2022-2026	97,740	34,409	132,149
2027	6,530	19,904	26,434
	$ 258,340	$ 164,523	$ 422,863

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2011, interest earned and transferred into the State General Fund amounted to $4,004,000.

On May 26, 2011, Act 62 was signed into law by the Governor. This law appropriated $42 million from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorizes the Governor to appropriate additional monies from the Fund, as necessary, to balance the fiscal year 2011 State Budget. In that regard, the Fund pledged to transfer an additional $69 million to the General Fund as of June 30, 2011 and made the transfer in July 2011.

11. RETIREMENT BENEFITS

Employee Retirement System

Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2011, 2010, and 2009, were approximately $388,242,000, $398,724,000, and $387,748,000, respectively. The State contributed 105.3%, 99.6%, and 109.8% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2011, was approximately $2,581,687,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributed to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006 and repealed on December 31, 2010. HSTA VEBA provided health benefits only to HSTA members, retirees and their dependents. Effective January 1, 2011 all members covered by the HSTA VEBA plans including retirees and their dependents were transitioned to the EUTF. Specific plans were created for HSTA VEBA members and retirees such that the EUTF currently provides the retirees who transitioned from the HSTA VEBA to the EUTF with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefit plans. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the State implemented GASB Statement No. 43 ("GASB 43"), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions.

GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 (“GASB 45”), *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed for July 1, 2009.

The State’s base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State’s base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State’s annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2011 (amounts in thousands):

	EUTF	UH
Annual required contribution	$ 904,235	$ 149,887
Interest on net OPEB obligation	60,606	8,251
Adjustment to annual required contribution	(58,724)	(7,501)
Annual OPEB cost	906,117	150,637
Contributions made	(229,935)	(38,765)
Increase in net OPEB obligation	676,182	111,872
Net OPEB obligation — beginning of year	1,487,716	206,271
Net OPEB obligation — end of year	$ 2,163,898	$ 318,143
Actuarial accrued liability (AAL) July 1, 2009	$ 14,007,480	$ 1,849,949
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2009	$ 14,007,480	$ 1,849,949
Funded ratio	- %	- %
Covered payroll	2,062,335	495,498
UAAL as percentage of covered payroll	679%	373%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2011	$ 906,117	25.3%	$ 2,155,055
	June 30, 2010	687,847	27.8%	1,046,690
	June 30, 2009	439,567	36.1%	549,774
HSTA VEBA (*)	June 30, 2010	$ 202,179	8.7%	$ 441,026
	June 30, 2009	145,282	10.6%	256,449
UH	June 30, 2011	$ 150,637	25.7%	$ 318,143
	June 30, 2010	101,521	22.8%	206,271
	June 30, 2009	94,770	31.3%	127,911

(*) Effective January 1, 2011, HSTA VEBA became part of the EUTF.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF and UH
Actuarial valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (Open)
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	3.5%
Healthcare inflation rates:	
Medical & Rx Pre-65	10.5% initial 5% ultimate
Medical & Rx Post-65	10.25% initial 5% ultimate
Dental	6% initial 4 % ultimate
Vision	4% initial 3% ultimate
Medicare Part B	5% ultimate

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2011, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 24,524
Agriculture	7,073
Natural Resources	3,804
All Other	374
	$ 35,775

Accumulated Sick Leave — Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2011, accumulated sick leave was approximately $1,099,218,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $233,500,000 for aquaculture/agriculture loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2011.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2011, the Enterprise Funds had commitments of approximately $384,151,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2011, 2010, and 2009, approximated $4,130,000, $11,171,000, and $1,171,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as Part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $47,665,000 during the fiscal year ended June 30, 2011. As of June 30, 2011, the State expects to receive $28,300,000 for the first six months of fiscal 2012.

Office of Hawaiian Affairs

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States re-conveyed title to those lands (collectively, the "Ceded Lands") to the State, and the Ceded Lands are to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, *et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II"*). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and nondisclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the State has reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001, decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with nonbinding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999, if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000, to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999, and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 99-4771-12VSM (1st Cir.) *("Kalima I").* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 00-1-1041-03 (1st Cir.) *("Kalima II").* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the circuit court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000, order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered, and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied. Trial to determine whether, and to what extent, if any, subclass members sustained out-of-pocket damages is yet to be scheduled.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007, but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural, and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch, and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian homelands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011. At the close of the argument, the case was taken under advisement by the court.

The State intends to defend vigorously against the claims against the State *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's and DHHL's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). In relevant part, Plaintiffs' claimed that Defendants have violated their constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the EUTF's Board's decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employee constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint again claiming that Defendents have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Section 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, caused by their forgoing or delaying health care due to insufficient coverage that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

Because an adverse determination was made by the Circuit Court and upheld on appeal, liability against the State is probable. However, no determination has been made as to the amount of damages. The Plaintiff's estimate of damages in this case is approximately $30,000,000. However, this amount is disputed by the State and there has been no determination by the trial judge as to the amount of damages. Any determination by the trial judge is subject to appeal and would not be finalized unless and until the appeal process is completed.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $50,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $25,000,000 per occurrence and $29,000,000 in aggregate.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2011, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2011 (amounts expressed in thousands):

	2011	2010
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 151,712	$ 150,761
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	32,110	34,332
Decrease in provision for insured events of prior fiscal years	(1,976)	(1,562)
Total incurred losses and loss adjustment costs	30,134	32,770
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(5,856)	(15,190)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(22,470)	(16,629)
Total payments	(28,326)	(31,819)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 153,520	$ 151,712

14. SUBSEQUENT EVENTS

State of Hawaii General Obligation Bonds

On December 7, 2011, the State issued $800,000,000 of general obligation bonds of 2011 series DZ, and $403,455,000, $2,800,000, $56,225,000, and $23,750,000 of general obligation refunding bonds of 2011, Series EA, EB, EC and ED, respectively.

Department of Transportation – Highways Division

On December 15, 2011, Highways issued $112,270,000 of Series 2011 A, and $5,095,000 of Series 2011 Highways Revenue Bonds. The Series 2011 Bonds were issued to finance certain highway capital improvement projects and to advance refund outstanding Highways Revenue bonds previously issued.

Department of Transportation — Airports Division

On October 4, 2011, the State issued $300,885,000 of Airports System Revenue Bonds Refunding Series 2011. The Refunding Bond proceeds were used to advance refund outstanding Airport System Revenue Bonds previously issued.

Employer Union Trust Fund

The healthcare carrier contracts for the active employees and retiree plans for the Trust Fund, including contracts for HSTA participants were extended from July 1, 2011 through December 27, 2011, and again from December 28, 2011, through December 31, 2011. Approvals were received from the State Procurement Office to extend these contracts. In addition, contracts for prescription drug plans were extended for six months from January 1, 2012.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,535,286	$ 2,424,512	$ 2,495,807	$ 71,295
Net income tax:				
Corporations	36,724	50,948	50,078	(870)
Individuals	1,374,051	1,224,381	1,231,167	6,786
Inheritance and estate tax	-	8,200	6,899	(1,301)
Liquor permits and tax	51,953	42,662	48,054	5,392
Public service companies tax	124,868	184,395	117,940	(66,455)
Tobacco tax	93,736	103,694	106,137	2,443
Tax on premiums of insurance companies	91,000	120,000	139,090	19,090
Franchise tax (banks and other financial institutions)	26,734	19,172	31,682	12,510
Transient accommodations tax	64,683	70,421	59,757	(10,664)
Other taxes, primarily conveyances tax	12,457	18,457	36,700	18,243
Total taxes	4,411,492	4,266,842	4,323,311	56,469
Non-taxes:				
Interest and investment income	24,167	6,379	3,559	(2,820)
Charges for current services	223,052	243,268	232,336	(10,932)
Intergovernmental	4,218	4,562	13,096	8,534
Rentals	497	633	462	(171)
Fines, forfeitures, and penalties	24,594	23,752	23,944	192
Licenses and fees	1,044	1,020	7,179	6,159
Revenues from private sources	1,610	14,576	14,172	(404)
Accrued interest on general obligation bonds sold	-	-	-	-
Debt service requirements	42,053	42,053	42,986	933
Other	176,905	179,899	365,863	185,964
Total non-taxes	498,140	516,142	703,597	187,455
Total revenues	4,909,632	4,782,984	5,026,908	243,924
EXPENDITURES:				
General government	1,841,534	1,892,466	1,722,003	170,463
Public safety	235,296	236,295	228,741	7,554
Conservation of natural resources	23,737	23,732	18,942	4,790
Health	383,202	383,202	368,227	14,975
Hospitals	82,140	82,140	80,497	1,643
Welfare	756,550	831,479	817,543	13,936
Lower education	1,311,313	1,311,313	1,270,185	41,128
Higher education	360,687	360,757	354,730	6,027
Other education	5,274	5,274	4,606	668
Culture and recreation	37,591	37,591	36,883	708
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	22,765	22,765	21,491	1,274
Housing	13,989	13,989	13,768	221
Other	-	2,470	2,312	158
Total expenditures	5,074,078	5,203,473	4,939,928	263,545
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(164,446)	(420,489)	86,980	507,469
OTHER FINANCING SOURCES — Transfers in	34,706	49,498	125,781	76,283
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (129,740)	$ (370,991)	$ 212,761	$ 583,752

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	-	-
Charges for current services	-	-	-	-
Intergovernmental	800,527	1,197,026	1,136,837	(60,189)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	21,776	(10,224)
Total non-taxes	832,527	1,229,026	1,158,613	(70,413)
Total revenues	832,527	1,229,026	1,158,613	(70,413)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	1,123,051	1,123,051	1,077,704	45,347
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	1,123,051	1,123,051	1,077,704	45,347
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (290,524)	$ 105,975	$ 80,909	$ (25,066)

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, SLH of 2007) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 — 2009 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2011, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund statement of revenues and expenditures — budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

STATE OF HAWAII

GENERAL FUND AND MED-QUEST SPECIAL REVENUE FUND
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2011
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2011, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 212,761	$ 80,909
Transfers	-	(4,256)
Excess of revenues and over expenditures — actual (budgetary basis)	212,761	76,653
Reserve for encumbrances at fiscal year end *	216,427	11,220
Expenditures for liquidation of prior fiscal year encumbrances	(267,375)	(99,570)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(3,514)	-
Tax refunds payable	179,251	-
Accrued liabilities	167,666	(106,508)
Accrued revenues	18,896	85,776
Net change in fund balance — GAAP basis	$ 524,112	$ (32,429)

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

SCHEDULES OF FUNDING PROGRESS

(Amounts in millions)

Primary Government:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$7,192	$7,192	- %	$1,782	403.6%
July 1, 2009	-	11,523	11,523	-	1,432	804.8

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$1,579	$1,579	- %	$680	234.8%
July 1, 2009	-	2,484	2,484	-	683	363.7

UH

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$1,136	$1,136	- %	$477	238.0%
July 1, 2009	-	1,850	1,850	-	495	373.4

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 65,649	$ 38,660	$ 57,063	$ 28,245	$ 49,912	$ 10,754	$ 10,805
RECEIVABLES:							
Notes and loans — net	-	17,348	-	-	-	1,976	-
Other - Net	31,953	-	-	-	-	-	-
DUE FROM OTHER FUNDS	8,300	-	-	-	-	-	-
INVESTMENTS	105,908	62,680	92,516	46,080	81,316	17,426	17,519
TOTAL	$ 211,810	$ 118,688	$ 149,579	$ 74,325	$ 131,228	$ 30,156	$ 28,324
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 27,615	$ 5,973	$ 28,578	$ 10,449	$ 19,697	$ 6,522	$ 3,516
Other accrued liabilities	3,354	2,610	25,911	380	13,066	1,042	2,306
Due to federal government	-	-	-	22,800	-	-	-
Due to other funds	-	648	-	12,200	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total Liabilities	30,969	9,231	54,489	45,829	32,763	7,564	5,822
FUND BALANCES:							
Restricted	-	-	-	21,473	-	-	-
Committed	27,014	101,791	119,782	2,013	-	21,352	19,503
Assigned	153,827	7,666	(24,692)	5,010	98,465	1,240	2,999
Total fund balances	180,841	109,457	95,090	28,496	98,465	22,592	22,502
TOTAL	$ 211,810	$ 118,688	$ 149,579	$ 74,325	$ 131,228	$ 30,156	$ 28,324

Special Revenue Funds: Regulatory	Special Revenue Funds: Hawaiian Programs	Special Revenue Funds: Administrative Support	Special Revenue Funds: All Other	Special Revenue Funds: Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 15,004	$ 78,224	$ 48,480	$ 15,825	$ 418,621	$ 326	$ 418,947
-	63,031	-	-	82,355	-	82,355
-	-	-	-	31,953	-	31,953
-	-	-	-	8,300	109	8,409
24,299	121,531	57,563	25,752	652,590	-	652,590
$ 39,303	$ 262,786	$ 106,043	$ 41,577	$ 1,193,819	$ 435	$ 1,194,254
$ 615	$ 10,866	$ 3,696	$ 15,036	$ 132,563	$ -	$ 132,563
2,344	1,154	1,341	1,752	55,260	-	55,260
-	-	-	-	22,800	-	22,800
-	-	-	-	12,848	-	12,848
-	-	-	-	-	326	326
2,959	12,020	5,037	16,788	223,471	326	223,797
-	-	-	-	21,473	109	21,582
33,821	190,942	83,907	-	600,125	-	600,125
2,523	59,824	17,099	24,789	348,750	-	348,750
36,344	250,766	101,006	24,789	970,348	109	970,457
$ 39,303	$ 262,786	$ 106,043	$ 41,577	$ 1,193,819	$ 435	$ 1,194,254

(concluded)

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	17,887	1,403	-	-	3,499	1,409
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	17,430	-	-	-	-
Liquid fuel tax	89,349	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	54,264	-	5,212	-	-	-	-
Rental motor/tour vehicle surcharge tax	43,892	-	-	-	-	-	-
Total taxes	187,505	19,137	24,045	-	-	3,499	1,409
Interest and investment income	8,306	3,338	3,646	28	871	1,008	712
Charges for current services	1,935	23,499	42,855	337	40,063	4,387	15,323
Intergovernmental	163,623	32,762	128,723	663,884	204,507	36,248	51,675
Rentals	-	5,563	-	-	291	2,627	-
Fines, forfeitures, and penalties	1,726	109	2,525	-	-	-	1,012
Licenses and fees	1,896	486	834	108	1,716	-	-
Revenues from private sources	-	1,002	35,279	29	102	-	-
Other	20,889	3,557	2,796	1,013	57,420	132	3,319
Total revenues	385,880	89,453	240,703	665,399	304,970	47,901	73,450
EXPENDITURES —							
Current:							
General government	-	4,272	180	-	-	-	-
Public safety	-	2,785	-	-	-	-	708
Conservation of natural resources	-	57,349	-	-	-	-	-
Health	-	-	257,208	-	-	-	-
Welfare	-	-	-	649,400	-	-	-
Lower education	-	-	-	-	362,575	-	-
Other education	-	-	-	8,719	-	-	-
Culture and recreation	-	9,603	-	-	3,170	-	-
Urban redevelopment and housing	-	-	-	1,292	-	-	-
Economic development and assistance	-	7,516	-	543	-	43,353	74,821
Other	-	1	-	-	-	-	-
Highways	188,815	92	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	188,815	81,618	257,388	659,954	365,745	43,353	75,529
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	197,065	7,835	(16,685)	5,445	(60,775)	4,548	(2,079)
OTHER FINANCING SOURCES (USES):							
Transfers in	55	771	10,304	48,569	98,065	101	488
Transfers out	(165,477)	(5,430)	(27,155)	(52,553)	(2,500)	(1,584)	(7,668)
Total other financing (uses) sources	(165,422)	(4,659)	(16,851)	(3,984)	95,565	(1,483)	(7,180)
NET CHANGE IN FUND BALANCES	31,643	3,176	(33,536)	1,461	34,790	3,065	(9,259)
FUND BALANCES — Beginning of year	149,198	106,281	128,626	27,035	63,675	19,527	31,761
FUND BALANCES — End of year	$ 180,841	$ 109,457	$ 95,090	$ 28,496	$ 98,465	$ 22,592	$ 22,502

Special Revenue Funds						
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	-	24,198	-	24,198
-	-	-	-	1,000	-	1,000
-	-	2,231	-	19,661	-	19,661
-	-	-	1,666	91,265	-	91,265
1,496	-	-	-	1,496	-	1,496
-	-	-	-	59,476	-	59,476
-	-	-	-	43,892	-	43,892
3,496	-	2,231	1,666	242,988	-	242,988
1,347	9,593	1,928	592	31,369	-	31,369
15,828	4,784	69,462	20,587	239,060	-	239,060
-	12,178	148,586	54,187	1,496,373	-	1,496,373
-	11,287	931	2,158	22,857	-	22,857
2,646	-	226	2,524	10,768	-	10,768
12,959	-	15,938	441	34,378	-	34,378
-	3,000	1,244	29	40,685	-	40,685
-	20,231	5,059	18,777	133,193	-	133,193
36,276	61,073	245,605	100,961	2,251,671	-	2,251,671
-	-	58,550	14,985	77,987	-	77,987
34,060	-	34,248	83,512	155,313	-	155,313
-	-	9	-	57,358	-	57,358
-	-	-	-	257,208	-	257,208
-	-	12,904	463	662,767	-	662,767
-	-	4,283	-	366,858	-	366,858
-	-	-	-	8,719	-	8,719
-	-	12,251	10,999	36,023	-	36,023
-	66,322	166	-	67,780	-	67,780
-	2,328	78	-	128,639	-	128,639
-	-	5,409	91	5,501	-	5,501
-	7,116	-	-	196,023	-	196,023
-	-	-	-	-	457,981	457,981
34,060	75,766	127,898	110,050	2,020,176	457,981	2,478,157
2,216	(14,693)	117,707	(9,089)	231,495	(457,981)	(226,486)
2,642	30,000	10,112	7,668	208,775	457,972	666,747
(15,360)	(3,008)	(187,724)	(5,847)	(474,306)	-	(474,306)
(12,718)	26,992	(177,612)	1,821	(265,531)	457,972	192,441
(10,502)	12,299	(59,905)	(7,268)	(34,036)	(9)	(34,045)
46,846	238,467	160,911	32,057	1,004,384	118	1,004,502
$ 36,344	$ 250,766	$ 101,006	$ 24,789	$ 970,348	$ 109	$ 970,457

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	89,349	89,349	-	250	250	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,841	20,841	-	-	-	-
State vehicle weight tax	33,423	33,423	-	-	-	-
Rental/tour vehicle surcharge tax	43,892	43,892	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,388	14,388	-
Environmental response tax	-	-	-	3,499	3,499	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	187,505	187,505	-	19,137	19,137	-
Non-taxes:						
Interest and investment income	4,197	4,210	13	1,281	1,295	14
Charges for current services	1,935	1,935	-	23,425	23,437	12
Intergovernmental	27,730	30,798	3,068	29,132	32,762	3,630
Rentals	-	-	-	5,563	5,563	-
Fines, forfeitures, and penalties	1,726	1,726	-	107	107	-
Licenses and fees	1,896	1,896	-	486	486	-
Revenues from private sources	-	-	-	2	1,002	1,000
Other	5,716	49,904	44,188	4,158	4,263	105
Total non-taxes	43,200	90,469	47,269	64,154	68,915	4,761
Total revenues	230,705	277,974	47,269	83,291	88,052	4,761
EXPENDITURES:						
General government	-	-	-	3,852	3,265	587
Public safety	-	-	-	5,930	2,602	3,328
Highways	282,011	226,830	55,181	-	-	-
Conservation of natural resources	-	-	-	87,002	54,986	32,016
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	12,388	10,225	2,163
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	9,345	6,863	2,482
Housing	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	282,011	226,830	55,181	118,517	77,941	40,576
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (51,306)	$ 51,144	$ 102,450	$ (35,226)	$ 10,111	$ 45,337

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
5,245	5,145	(100)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,189	18,032	5,843	-	-	-
-	-	-	-	-	-
1,800	1,570	(230)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,234	24,747	5,513	-	-	-
2,515	1,435	(1,080)	476	476	-
90,284	89,892	(392)	40,030	40,063	33
101,123	136,672	35,549	202,239	204,507	2,268
-	-	-	291	291	-
1,097	2,385	1,288	-	-	-
828	917	89	1,716	1,716	-
57,015	38,105	(18,910)	102	102	-
4	5,669	5,665	58,981	58,981	-
252,866	275,075	22,209	303,835	306,136	2,301
272,100	299,822	27,722	303,835	306,136	2,301
192	188	4	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
394,692	274,779	119,913	-	-	-
50,000	-	50,000	-	-	-
-	-	-	-	-	-
-	-	-	595,370	354,599	240,771
-	-	-	-	-	-
-	-	-	5,090	3,267	1,823
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
444,884	274,967	169,913	600,460	357,866	242,594
$(172,784)	$ 24,855	$ 197,635	$(296,625)	$ (51,730)	$ 244,895

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	3,499	3,499	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	3,499	3,499	-
Non-taxes:						
Interest and investment income	14	16	2	591	591	-
Charges for current services	337	337	-	4,382	4,387	5
Intergovernmental	349,144	350,505	1,361	20,314	36,248	15,934
Rentals	-	-	-	2,627	2,627	-
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	108	108	-	-	-	-
Revenues from private sources	29	29	-	-	-	-
Other	1,473	1,473	-	1,649	1,649	-
Total non-taxes	351,105	352,468	1,363	29,563	45,502	15,939
Total revenues	351,105	352,468	1,363	33,062	49,001	15,939
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	428,188	343,499	84,689	-	-	-
Lower education			-	-	-	-
Other education	19,897	7,999	11,898	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	1,769	544	1,225	123,201	40,933	82,268
Housing	2,501	1,501	1,000	-	-	-
Other	-	-	-	-	-	-
Total expenditures	452,355	353,543	98,812	124,301	40,933	83,368
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (101,250)	$ (1,075)	$ 100,175	$ (91,239)	$ 8,068	$ 99,307

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ 1,520	$ 1,520	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,409	1,409	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-		-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,496	1,496	-
1,409	2,929	1,520	3,496	3,496	-
343	343	-	780	780	-
6,906	15,323	8,417	15,828	15,828	-
51,211	51,675	464	1,459	1,459	-
-	-	-	-	-	-
1,012	1,012	-	2,646	2,646	-
-	-	-	11,500	11,500	-
-	-	-	-	-	-
2,917	2,917	-	2,676	2,676	-
62,389	71,270	8,881	34,889	34,889	-
63,798	74,199	10,401	38,385	38,385	-
-	-	-	-	-	-
1,694	708	986	55,905	36,787	19,118
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
149,055	74,745	74,310	1,000	176	824
-	-	-	-	-	-
-	-	-	-	-	-
150,749	75,453	75,296	56,905	36,963	19,942
$ (86,951)	$ (1,254)	$ 85,697	$ (18,520)	$ 1,422	$ 19,942

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	2,231	2,231	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	2,231	2,231	-
Non-taxes:						
Interest and investment income	597	597	-	1,036	1,036	-
Charges for current services	4	4	-	52,554	71,765	19,211
Intergovernmental	1,970	12,178	10,208	147,314	148,586	1,272
Rentals	10,976	10,976	-	4,344	4,344	-
Fines, forfeitures, and penalties	-	-	-	226	226	-
Licenses and fees	-	-	-	15,938	15,938	-
Revenues from private sources	3,000	3,000	-	1,244	1,244	-
Other	5,440	5,441	1	11,921	12,119	198
Total non-taxes	21,987	32,196	10,209	234,577	255,258	20,681
Total revenues	21,987	32,196	10,209	236,808	257,489	20,681
EXPENDITURES:						
General government	-	-	-	77,619	45,045	32,574
Public safety	-	-	-	32,353	19,647	12,706
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	336	9	327
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	16,764	12,327	4,437
Lower education	-	-	-	7,000	4,283	2,717
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,624	11,544	3,080
Urban redevelopment and housing	35,904	28,284	7,620	-	-	-
Economic development and assistance	-	-	-	476	71	405
Housing	-	-	-	-	574	(574)
Other	-	-	-	16,369	5,759	10,610
Total expenditures	35,904	28,284	7,620	165,541	99,259	66,282
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (13,917)	$ 3,912	$ 17,829	$ 71,267	$ 158,230	$ 86,963

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ 1,520	$ 1,520
-	-	-	89,599	89,599	-
1,666	1,666	-	1,666	1,666	-
-	-	-	26,086	25,986	(100)
-	-	-	33,423	33,423	-
-	-	-	43,892	43,892	-
-	-	-	1,409	1,409	-
-	-	-	14,420	20,263	5,843
-	-	-	14,388	14,388	-
-	-	-	8,797	8,567	(230)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	1,496	1,496	-
1,666	1,666	-	238,176	245,209	7,033
406	406	-	12,235	11,185	(1,050)
20,587	20,587	-	256,274	283,558	27,284
46,902	54,187	7,285	978,539	1,059,576	81,037
2,158	2,158	-	25,959	25,959	-
2,524	2,524	-	9,337	10,626	1,289
441	441	-	32,912	33,001	89
29	29	-	61,421	43,511	(17,910)
23,431	24,020	589	118,365	169,112	50,747
96,478	104,352	7,874	1,495,042	1,636,528	141,486
98,144	106,018	7,874	1,733,218	1,881,737	148,519
21,760	18,119	3,641	103,423	66,617	36,806
134,324	78,645	55,679	231,306	138,390	92,916
-	-	-	282,011	226,830	55,181
-	-	-	87,337	54,995	32,342
-	-	-	394,692	274,779	119,913
-	-	-	50,000	-	50,000
550	366	184	445,503	356,192	89,311
-	-	-	602,370	358,883	243,487
-	-	-	19,897	7,999	11,898
17,233	10,948	6,285	49,335	35,983	13,352
-	-	-	35,904	28,284	7,620
-	-	-	284,845	123,332	161,513
-	-	-	2,501	2,075	426
-	-	-	16,369	5,759	10,610
173,867	108,078	65,789	2,605,493	1,680,118	925,375
$ (75,723)	$ (2,060)	$ 73,663	$ (872,275)	$ 201,619	$ 1,073,894

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2011
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 201,619
RESERVE FOR ENCUMBRANCES AT YEAR-END*	339,573
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(492,565)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	30,773
TRANSFERS	262,314
ACCRUED LIABILITIES	(991,394)
ACCRUED REVENUES	423,194
DEFICIENCY OF REVENUES OVER EXPENDITURES — GAAP basis	$ (226,486)

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 10,205	$ 103,939	$ 36,462	$ 150,606
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $403)	97	806	114	1,017
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	27,058	4,957	32,015
Other	909	385	898	2,192
Premiums	31,332	-	-	31,332
Prepaid expenses and other assets	11,752	-	-	11,752
Total current assets	54,295	132,188	42,431	228,914
CAPITAL ASSETS				
Equipment	13,639	-	1,208	14,847
	13,639	-	1,208	14,847
Less accumulated depreciation	(6,527)	-	(875)	(7,402)
Net capital assets	7,112	-	333	7,445
Promissory note receivable	-	278,529	70,922	349,451
Other	-	19,641	18,343	37,984
Total noncurrent assets	7,112	298,170	89,598	394,880
TOTAL	$ 61,407	$ 430,358	$ 132,029	$ 623,794

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 320	$ 159	$ 406	$ 885
Other accrued liabilities	1,423	-	-	1,423
Accrued vacation, current portion	68	-	-	68
Benefits claims payable	41,393	-	-	41,393
Premiums payable	19,484	-	-	19,484
Total current liabilities	62,688	159	406	63,253
NONCURRENT LIABILITIES:				
Accrued vacation	167	240	108	515
Other postemployment benefit liability	735	620	201	1,556
TOTAL	63,590	1,019	715	65,324
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	7,111	-	333	7,444
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	429,339	130,981	560,320
UNRESTRICTED	(9,294)	-	-	(9,294)
TOTAL NET ASSETS	$ (2,183)	$ 429,339	$ 131,314	$ 558,470

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 5,432	$ 1,774	$ 2,360	$ 9,566
Premium revenue - self insurance	243,324	-	-	243,324
Other	(458)	3,074	281	2,897
Total operating revenues	248,298	4,848	2,641	255,787
OPERATING EXPENSES:				
Personnel services	2,034	-	-	2,034
Depreciation	1,547	-	72	1,619
Repairs and maintenance	24	-	-	24
General administration	2,674	1,721	1,851	6,246
Claims	240,392	-	-	240,392
Other	31	-	-	31
Total operating expenses	246,702	1,721	1,923	250,346
Operating income	1,596	3,127	718	5,441
NONOPERATING REVENUES:				
Interest and investment income	1,147	4,337	747	6,231
Total nonoperating revenues	1,147	4,337	747	6,231
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,743	7,464	1,465	11,672
CAPITAL CONTRIBUTIONS:				
Federal	-	12,115	14,216	26,331
State	-	3,157	2,715	5,872
Total Contributions	-	15,272	16,931	32,203
CHANGE IN NET ASSETS	2,743	22,736	18,396	43,875
NET ASSETS — Beginning of year	(4,926)	406,603	112,918	514,595
NET ASSETS — End of year	$ (2,183)	$ 429,339	$ 131,314	$ 558,470

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employer and employee for premium and benefit payments	$ 241,282	$ -	$ -	$ 241,282
Cash paid to suppliers	(2,549)	(102)	(937)	(3,588)
Cash paid to employees	(1,709)	(1,329)	(694)	(3,732)
Cash paid for premiums and benefit payments	(228,816)	-	-	(228,816)
Reserves returned by insurance carriers	618	-	-	618
Interest income from notes receivable	-	3,133	276	3,409
Administrative loan fees	-	1,809	2,266	4,075
Principal repayments on notes receivable	-	25,580	4,451	30,031
Disbursement of notes receivable proceeds	-	(33,639)	(9,218)	(42,857)
Net cash provided by (used in) operating activities	8,826	(4,548)	(3,856)	422
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	12,116	14,154	26,270
Disbursement of federal operating grant	-	(6,865)	(7,427)	(14,292)
Net cash provided by noncapital financing activities	-	8,408	9,442	17,850
CASH FLOWS FROM INVESTING ACTIVITIES — Interest from investments	1,379	5,437	985	7,801
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,205	9,297	6,571	26,073
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	-	94,642	29,891	124,533
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 10,205	$ 103,939	$ 36,462	$ 150,606

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income	$ 1,596	$ 3,127	$ 718	$ 5,441
Adjustments to reconcile operating income to net cash used in operating activities:				
Depreciation	1,547	-	72	1,619
Premium reserves held by insurance companies	(229)	-	-	(229)
Increase in assets:				
Receivables	(7,200)	(7,964)	(4,867)	(20,031)
Prepaid expenses	(61)	-	-	(61)
Increase in liabilities:				
Vouchers and contracts payable	212	61	133	406
Other accrued liabilities	9,902	228	88	10,218
Accrued interest on loans receivable	3,059	-	-	3,059
Net cash used in operating activities	$ 8,826	$ (4,548)	$ (3,856)	$ 422

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2011
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 11,983	$ 350,959	$ 28,724	$ 391,666
RECEIVABLES — Taxes	-	-	8,584	8,584
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	35,006	48,055	-	83,061
INVESTMENTS	19,551	33,852	56,858	110,261
TOTAL ASSETS	$ 66,540	$ 432,866	$ 94,166	$ 593,572
LIABILITIES				
VOUCHERS PAYABLE	$ 66,540	$ 437	$ 4,380	$ 71,357
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	432,429	89,786	522,215
TOTAL LIABILITIES	$ 66,540	$ 432,866	$ 94,166	$ 593,572

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Amounts in thousands)

	Balance — July 1, 2010	Additions	Deductions	Balance — June 30, 2011
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 13,304	$ 6,824,580	$ (6,825,901)	$ 11,983
Investments	10,884	19,551	(10,884)	19,551
Due from individuals, businesses, and counties	26,336	6,833,249	(6,824,579)	35,006
Total assets	$ 50,524	$ 13,677,380	$ (13,661,364)	$ 66,540
Liabilities:				
Vouchers payable	$ 50,524	$ 66,540	$ (50,524)	$ 66,540
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 50,524	$ 66,540	$ (50,524)	$ 66,540
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 292,694	$ 4,179,659	$ (4,121,394)	$ 350,959
Due from individuals, businesses, and counties	41,347	416,622	(409,914)	48,055
Investments	33,762	33,852	(33,762)	33,852
Total assets	$ 367,803	$ 4,630,133	$ (4,565,070)	$ 432,866
Liabilities:				
Vouchers payable	$ 98	$ 437	$ (98)	$ 437
Due to individuals, businesses, and counties	367,705	4,137,359	(4,072,635)	432,429
Total liabilities	$ 367,803	$ 4,137,796	$ (4,072,733)	$ 432,866
OTHER:				
Assets:				
Cash and cash equivalents	$ 25,107	$ 108,146	$ (104,529)	$ 28,724
Receivables	7,587	8,584	(7,587)	8,584
Investments	28,484	56,860	(28,486)	56,858
Total assets	$ 61,178	$ 173,590	$ (140,602)	$ 94,166
Liabilities:				
Vouchers payable	$ 241	$ 4,380	$ (241)	$ 4,380
Due to individuals, businesses, and counties	60,937	109,143	(80,294)	89,786
Total liabilities	$ 61,178	$ 113,523	$ (80,535)	$ 94,166
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 331,105	$ 11,112,385	$ (11,051,824)	$ 391,666
Receivables	7,587	8,584	(7,587)	8,584
Due from individuals, businesses, and counties	67,683	7,249,871	(7,234,493)	83,061
Investments	73,130	110,263	(73,132)	110,261
Total assets	$ 479,505	$ 18,481,103	$ (18,367,036)	$ 593,572
Liabilities:				
Vouchers payable	$ 50,863	$ 71,357	$ (50,863)	$ 71,357
Due to individuals, businesses, and counties	428,642	4,246,502	(4,152,929)	522,215
Total liabilities	$ 479,505	$ 4,317,859	$ (4,203,792)	$ 593,572

PART III: STATISTICAL SECTION

STATISTICAL SECTION ("UNAUDITED")

This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information on the State's overall financial health.

<u>**Contents**</u> <u>**Page**</u>

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002; schedules presenting Government-Wide information include information beginning in that year.*

STATE OF HAWAII

Net Assets by Component

(Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
Governmental Activities:					
Invested in capital assets, net of related debt	$ 3,326,245	$ 3,118,606	$ 3,298,144	$ 3,987,244	$ 3,597,174
Restricted	917,730	655,238	641,031	909,877	569,006
Unrestricted	(2,384,187)	(1,306,716)	(471,543)	121,480	1,578,412
Total Governmental Activities Net Assets	1,859,788	2,467,128	3,467,632	5,018,601	5,744,592
Business-Type Activities:					
Invested in capital assets, net of related debt	1,476,136	1,469,676	1,527,018	1,458,305	1,278,608
Restricted	956,894	922,846	782,569	730,061	655,055
Unrestricted	579,383	493,163	597,624	1,013,447	1,304,586
Total Business-Type Activities Net Assets	3,012,413	2,885,685	2,907,211	3,201,813	3,238,249
Primary Government:					
Invested in capital assets, net of related debt	4,802,381	4,588,282	4,825,162	5,445,549	4,875,782
Restricted	1,874,624	1,578,084	1,423,600	1,639,938	1,224,061
Unrestricted	(1,804,804)	(813,553)	126,081	1,134,927	2,882,998
Total Primary Government Net Assets	$ 4,872,201	$ 5,352,813	$ 6,374,843	$ 8,220,414	$ 8,982,841

STATE OF HAWAII

Changes in Net Assets
(Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
Expenses:					
Governmental activities:					
General government	$ 535,434	$ 421,327	$ 564,356	$ 548,439	$ 541,889
Public safety	471,459	538,110	464,897	414,463	378,409
Highways	450,548	466,322	487,391	490,754	385,267
Conservation of natural resources	89,021	81,561	119,705	74,411	68,745
Health	816,525	858,476	843,826	895,413	833,669
Welfare	2,553,829	2,348,190	2,140,202	1,877,188	1,773,505
Lower education	2,545,980	2,616,768	2,656,592	2,385,056	2,288,641
Higher education	707,381	700,335	878,126	815,116	759,777
Other education	14,018	14,034	29,935	23,206	21,127
Culture and recreation	108,697	108,247	106,583	107,676	92,444
Urban redevelopment and housing	66,144	101,505	145,710	187,861	73,991
Economic development and assistance	238,315	209,611	158,808	157,421	148,164
Interest expense	239,836	210,243	127,576	140,032	118,708
Total governmental activities expenses	8,837,187	8,674,729	8,723,707	8,117,036	7,484,336
Business-type activities:					
Airports	354,368	336,127	347,089	354,554	329,942
Harbors	80,355	68,291	124,611	80,344	76,830
Unemployment compensation	561,548	686,141	437,553	159,098	112,411
Nonmajor proprietary fund	250,346	256,205	38,672	22,619	4,871
Total business-type activities expenses	1,246,617	1,346,764	947,925	616,615	524,054
Total Primary Government Expenses	$ 10,083,804	$ 10,021,493	$ 9,671,632	$ 8,733,651	$ 8,008,390
Program Revenues:					
Governmental activities					
Charges for services:					
General government	$ 270,078	$ 231,629	$ 206,431	$ 203,336	$ 168,877
Health	46,215	98,547	99,788	102,032	98,681
Other	112,479	111,295	119,126	101,390	110,942
Operating grants and contributions	2,837,464	2,598,141	2,260,551	1,887,298	1,820,886
Capital grants and contributions	132,825	144,445	145,771	130,643	75,697
Total governmental activities program revenues	3,399,061	3,184,057	2,831,667	2,424,699	2,275,083
Business-type activities —					
Charges for services:					
Airports	387,484	324,577	290,464	266,820	256,843
Unemployment	535,243	486,476	169,976	87,486	138,070
Others	341,707	344,889	84,692	95,013	93,650
Capital grants and contributions	75,324	98,099	103,195	81,967	148,597
Total business-type activities program revenues	1,339,758	1,254,041	648,327	531,286	637,160
Total Primary Government Program Revenues	$ 4,738,819	$ 4,438,098	$ 3,479,994	$ 2,955,985	$ 2,912,243
Net (Expense) Revenue:					
Governmental activities	$ (5,438,126)	$ (5,490,672)	$ (5,892,040)	$ (5,692,337)	$ (5,209,253)
Business-type activities	93,141	(92,723)	(299,598)	(85,329)	113,106
Total Primary Government Net Expenses	$ (5,344,985)	$ (5,583,395)	$ (6,191,638)	$ (5,777,666)	$ (5,096,147)
General Revenues and Other Changes in Net Assets:					
Governmental activities					
Taxes:					
General excise tax	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121	$ 2,659,339
Net income tax — corporations and individuals	1,477,624	1,408,965	1,366,576	1,634,117	1,620,452
Public service companies tax	117,940	157,661	126,069	127,481	124,017
Transient accommodations tax	60,839	32,635	14,408	17,756	7,382
Tobacco and liquor taxes	173,851	149,596	135,388	134,886	131,813
Liquid fuel tax	91,265	82,780	88,006	90,123	87,179
Tax on premiums of insurance companies	140,586	105,848	95,181	96,332	96,385
Vehicle weight and registration tax	59,476	58,659	59,392	60,842	59,422
Rental motor/tour vehicle surcharge tax	43,892	40,401	39,751	49,196	49,479
Franchise tax	33,682	20,666	28,075	20,213	19,012
Others	67,799	32,165	19,215	26,149	27,523
Interest and investment income	55,852	124,516	(42,051)	112,024	102,295
Other	-	(3,034)	305	106	-
Total governmental activities	4,830,786	4,490,168	4,341,071	4,966,346	4,984,298
Business-type activities:					
Interest and investment income	33,587	68,950	4,639	48,893	82,046
Other	-	-	-	-	-
Total business-type activities	33,587	68,950	4,639	48,893	82,046
Total Primary Government	$ 4,864,373	$ 4,559,118	$ 4,345,710	$ 5,015,239	$ 5,066,344
Changes in Net Assets:					
Governmental activities	$ (607,340)	$ (1,000,504)	$ (1,550,969)	$ (725,991)	$ (224,955)
Business-type activities	126,728	(23,773)	(294,959)	(36,436)	195,152
Total Primary Government	$ (480,612)	$ (1,024,277)	$ (1,845,928)	$ (762,427)	$ (29,803)

STATE OF HAWAII

Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
General Fund:					
Reserved	N/A	$ 243,485	$ 272,557	$ 406,884	$ 414,899
Unreserved	N/A	(210,551)	(87,537)	567,474	881,311
Total General Fund	N/A	$ 32,934	$ 185,020	$ 974,358	$ 1,296,210
All Other Governmental Funds:					
Reserved	N/A	$ 2,275,968	$ 2,801,012	$ 2,344,961	$ 1,643,345
Unreserved, reported in:					
Capital Projects Fund	N/A	(1,651,855)	(2,019,696)	(1,788,357)	(1,111,924)
Special Revenue Funds	N/A	293,625	255,844	410,265	556,963
Total All Other Governmental Funds	N/A	$ 917,738	$ 1,037,160	$ 966,869	$ 1,088,384
General Fund (Under GASB 54):					
Assigned Fund Balance	$ 210,164	N/A	N/A	N/A	N/A
Unrestricted Fund Balance	346,882	N/A	N/A	N/A	N/A
Total General Fund	$ 557,046	N/A	N/A	N/A	N/A
All Other Governmental Funds (Under GASB 54):					
Restricted Fund Balance	$ 21,582	N/A	N/A	N/A	N/A
Committed Fund Balance	600,125	N/A	N/A	N/A	N/A
Assigned Fund Balance	339,337	N/A	N/A	N/A	N/A
Unrestricted Fund Balance	(766,665)	N/A	N/A	N/A	N/A
Total All Other Governmental Funds	$ 194,379	N/A	N/A	N/A	N/A

Note: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Fund balance has not been restated for prior years.

STATE OF HAWAII

Changes in Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
Revenues:					
Taxes:					
General excise tax	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121	$ 2,632,485
Net income tax — corporations and individuals	1,473,188	1,408,965	1,373,893	1,637,265	1,618,570
Public service companies tax	117,940	157,661	126,069	127,481	124,017
Transient accommodations tax	60,839	32,635	14,408	17,756	7,382
Tobacco and liquor taxes	173,851	149,596	135,388	134,886	131,813
Liquid fuel tax	91,265	82,780	88,006	90,123	87,179
Tax on premiums of insurance companies	140,586	105,848	95,181	96,332	96,385
Vehicle weight and registration tax	59,476	58,659	59,392	60,842	59,422
Rental motor/tour vehicle surcharge tax	43,892	40,401	39,751	49,196	49,479
Franchise tax	33,682	20,666	28,075	20,213	2,000
Other	67,799	32,165	19,215	26,149	44,535
Total taxes	4,770,498	4,368,686	4,390,134	4,857,364	4,853,267
Interest and investment income (loss)	55,854	124,518	(42,051)	115,247	122,606
Charges for current services	348,108	364,893	357,078	341,371	318,235
Intergovernmental	2,567,266	2,432,369	2,090,058	1,807,376	1,727,895
Rentals	23,319	19,712	21,107	20,152	21,639
Fines, forfeitures, and penalties	34,712	35,982	33,888	32,618	28,488
Licenses and fees	41,557	36,641	33,324	31,731	30,837
Revenues from private sources	54,857	57,850	63,401	59,508	39,401
Other	343,318	182,367	246,369	131,291	127,444
Total revenues	8,239,489	7,623,018	7,193,308	7,396,658	7,269,812
Expenditures:					
Current:					
General government	487,848	436,290	597,210	537,541	458,236
Public safety	423,716	457,058	435,414	411,152	376,032
Highways	376,780	442,971	442,421	406,795	337,862
Conservation of natural resources	93,600	88,873	120,693	103,596	107,578
Health	757,482	801,923	798,026	863,914	832,333
Welfare	2,526,743	2,315,726	2,119,481	1,857,473	1,770,707
Lower education	2,208,303	2,325,066	2,454,668	2,201,901	2,305,280
Higher education	707,380	700,335	878,127	815,116	759,777
Other education	14,018	14,033	29,912	23,206	20,122
Culture and recreation	117,306	108,536	107,302	110,404	92,574
Urban redevelopment and housing	135,141	115,796	179,819	255,783	170,614
Economic development and assistance	158,104	166,320	169,547	149,075	147,146
Other	12,223	28,613	3,084	5,880	7,248
Debt service					
Principal	191,244	179,624	204,604	231,478	271,010
Interest and others	266,737	248,551	197,118	247,257	231,723
Total Expenditures	8,476,625	8,429,715	8,737,426	8,220,571	7,888,242
Deficiency of Revenues Over Expenditures	(237,136)	(806,697)	(1,544,118)	(823,913)	(618,430)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	-	1,150,482	1,174,768	445,687	395,303
Payments to escrow agent	-	(619,708)	(349,697)	(29,510)	-
Transfers in	921,433	721,810	761,393	803,456	796,195
Transfers out	(921,433)	(721,810)	(761,393)	(803,456)	(796,195)
Other	37,889	4,415	-	-	-
Total Other Financing Sources	37,889	535,189	825,071	416,177	395,303
Net Change in Fund Balances	$ (199,247)	$ (271,508)	$ (719,047)	$ (407,736)	$ (223,127)
Debt service as a percentage of noncapital expenditures	5.7%	5.6%	4.8%	6.2%	6.9%

Note: The above amounts do not include the effects of restatements

STATE OF HAWAII

Personal Income by Industry

Last Ten Fiscal Years
(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Farm Earnings	$ 288	$ 250	$ 232	$ 220	$ 213	$ 210	$ 213	$ 221	$ 217	$ 220
Nonfarm Wage and Salary Workers:										
Goods-producing industries:										
Forestry, fishing-related activities, and other	42	45	36	47	42	53	54	56	65	68
Mining	33	51	44	45	55	53	50	45	37	31
Construction	2,843	2,598	2,714	3,271	3,188	3,004	2,736	2,231	2,067	1,869
Manufacturing – durable and nondurable goods	768	766	807	874	1,003	1,000	916	887	753	745
Subtotal Goods-Producing Industries	3,686	3,460	3,601	4,237	4,288	4,110	3,756	3,219	2,922	2,713
Service-producing industries										
Transportation, communication, and utilities	1,783	1,718	1,714	1,826	1,926	1,831	1,760	1,631	1,474	1,416
Trade	3,666	3,651	3,636	3,817	3,654	3,540	3,366	3,151	2,983	2,809
Information	711	732	657	711	759	758	690	694	650	669
Finance, insurance, and real estate	2,081	2,014	2,044	2,126	2,311	2,367	2,308	2,155	1,957	1,884
Service	15,075	14,901	14,514	14,723	13,611	13,013	12,226	11,592	10,622	9,945
State and local government	5,327	5,609	5,609	5,372	5,023	4,747	4,443	4,101	3,862	3,664
Federal government	9,531	9,252	9,077	8,258	7,745	7,249	6,751	6,280	5,716	5,282
Subtotal Service-Producing Industries	38,174	37,877	37,251	36,833	35,029	33,505	31,544	29,604	27,264	25,669
Total Nonfarm Wage and Salary Workers	41,860	41,337	40,852	41,070	39,317	37,615	35,300	32,823	30,186	28,382
Other(1)	15,981	14,661	13,329	12,891	10,601	9,514	8,598	7,984	7,433	7,765
Total Personal Income	$ 58,129	$ 56,248	$ 54,413	$ 54,181	$ 50,131	$ 47,339	$ 44,111	$ 41,028	$ 37,836	$ 36,367
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.
(2) The total direct rate for personal income is not available.
Source: State of Hawaii Department of Business, Economic Development and Tourism - Data Book and Quarterly Statistical and Economic Report (QSER)
N/A Not available.

Personal Income Tax Rates

Last Six Calendar Years

Top Income Tax Rate is Applied to Taxable Income in Excess of

Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2011	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2010	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2009	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2008	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000
2007	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000
2006	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000

Source: State of Hawaii, Department of Taxation.

STATE OF HAWAII

Personal Income Tax Filers and Liability by Income Level

Calendar Years 2006 and 1999

2006

Income Level(1)	Number of Filers(2)	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Under $5,000	36,968	7.0 %	$ 975,091	0.1 %
$5,000 – $10,000	48,434	9.2	6,256,133	0.4
$10,000 – $20,000	87,084	16.5	40,332,199	2.6
$20,000 – $30,000	77,271	14.7	77,913,432	5.0
$30,000 – $40,000	62,144	11.8	95,268,983	6.1
$40,000 – $50,000	43,425	8.3	89,482,585	5.7
$50,000 – $75,000	72,305	13.7	209,998,273	13.5
$75,000 – $100,000	41,275	7.8	173,571,460	11.1
$100,000 and over	57,947	11.0	863,922,316	55.5
	526,853	100.0 %	$ 1,557,720,472	100.0 %

1999

Income Level(1)	Number of Filers(2)	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Under $5,000	44,672	9.6 %	$ 1,336,390	0.1 %
$5,000 – $10,000	54,505	11.7	8,114,219	0.8
$10,000 – $20,000	88,968	19.0	46,173,613	4.7
$20,000 – $30,000	74,230	15.9	81,860,752	8.3
$30,000 – $40,000	50,509	10.8	84,056,955	8.5
$40,000 – $50,000	37,369	8.0	81,468,836	8.2
$50,000 – $75,000	59,469	12.7	182,083,159	18.3
$75,000 – $100,000	28,243	6.0	128,502,791	12.9
$100,000 and over	29,573	6.3	379,881,765	38.2
	467,538	100.0 %	$ 993,478,480	100.0 %

(1) Income Level = Hawaii Adjusted Gross Income.
(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation, Tax Research & Planning Office

Note: Calendar year 2006 is the most recent year available.

STATE OF HAWAII

Taxable Sales by Industry

Last Five Fiscal Years
(Amounts in millions)

	For the Fiscal Year Ended June 30, 2011				
	2011	2010	2009	2008	2007
Taxable Sales by Activities:					
Retailing	$ 25,887	$ 23,919	$ 24,318	$ 26,183	$ 25,509
Services	11,944	11,154	11,059	11,073	11,205
Contracting	5,687	5,864	7,631	7,863	7,904
Hotel rentals	3,024	2,606	2,812	3,321	3,480
All other rentals	5,999	5,778	6,094	5,818	5,814
All other (4%)	4,825	4,360	4,375	5,238	5,606
Subtotal	57,366	53,681	56,289	59,496	59,518
Pineapple canning	-	-	-	-	15
Producing	370	340	405	457	467
Manufacturing	698	704	809	761	818
Wholesaling	13,121	12,207	12,502	13,746	13,558
Use (1/2%)	6,669	6,430	6,883	7,215	7,742
Services (Intermediary)	577	572	611	649	718
Insurance solicitors	480	502	535	544	617
Subtotal	21,915	20,755	21,745	23,372	23,935
Total All Activities	$ 79,281	$ 74,436	$ 78,034	$ 82,868	$ 83,453

General excise and use tax is imposed on the gross income received by the business as follows:

- 4% of sales of tangible personal tangible property, services, contracting, theater amusement and broadcasting, commissions, transient accommodations rentals, other rentals, interest, and other business activities;

- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;

- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation - Monthly Tax Collection Reports.

STATE OF HAWAII

Sales Tax Revenue Payers by Industry

Last Five Fiscal Years
(Amounts in thousands)

	2011		2010		2009		2008		2007	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$ 1,035,465	41.5 %	$ 956,761	41.3 %	$ 972,728	40.1 %	$ 1,047,340	40.0 %	$ 1,020,357	39.9 %
Services	477,753	19.1 %	446,142	19.3	442,356	18.3	442,909	16.9	448,202	17.5
Contracting	227,497	9.1 %	234,562	10.1	305,241	12.6	314,538	12.0	316,142	12.4
Theater, amusement, etc.	14,945	0.6 %	13,378	0.6	13,557	0.6	13,998	0.5	13,588	0.5
Interest	74	0.0 %	191	0.0	339	0.0	7,963	0.3	13,818	0.5
Commissions	36,574	1.5 %	33,024	1.4	35,230	1.5	42,500	1.6	52,101	2.1
Hotel rentals	120,954	4.8 %	104,260	4.5	112,484	4.6	132,841	5.1	139,186	5.5
All other rentals	239,944	9.6 %	231,123	10.0	243,762	10.1	232,718	8.9	232,539	9.1
Use (4%)	37,316	1.5 %	34,484	1.5	34,088	1.4	39,034	1.5	37,548	1.5
All other (4%)	104,073	4.2 %	93,327	4.0	91,761	3.8	106,040	4.0	107,196	4.2
Pineapple canning	-	%	-	-	-	-	-	-	76	-
Producing	1,850	0.1 %	1,697	0.1	2,023	0.1	2,286	0.1	2,336	0.1
Manufacturing	3,488	0.1 %	3,517	0.2	4,045	0.2	3,804	0.1	4,091	0.2
Wholesaling	65,608	2.6 %	61,036	2.6	62,509	2.6	68,730	2.6	67,790	2.7
Use (1/2%)	33,347	1.3 %	32,152	1.4	34,415	1.4	36,073	1.4	38,712	1.5
Services (Intermediary)	2,886	0.1 %	2,862	0.1	3,054	0.1	3,242	0.1	3,592	0.1
Insurance solicitors	721	0.0 %	753	0.0	803	0.0	815	0.0	925	0.0
Unallocated collections	93,312	3.7 %	67,165	2.9	61,855	2.6	123,953	4.7	57,563	2.2
Total	$ 2,495,807	100.0 %	$ 2,316,434	100 %	$2,420,250	100 %	$ 2,618,784	100 %	$ 2,555,762	100 %

Source: State of Hawaii, Department of Taxation - Monthly tax collection reports

Note: Information for number of filers is not available.

STATE OF HAWAII

Ratios of Outstanding Debt by Type

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2011				
	2011	2010	2009	2008	2007
Governmental Activities:					
General obligation bonds	$ 4,987,544	$ 5,157,198	$ 4,779,666	$ 4,408,572	$ 4,079,714
Revenue bonds	378,625	400,215	420,605	268,425	283,310
Capital leases	100,520	64,385	71,685	75,480	79,090
Total Governmental Activities	5,466,689	5,621,798	5,271,956	4,752,477	4,442,114
Business-Type Activities:					
General obligation bonds	36,221	37,362	38,329	38,357	37
Revenue bonds	1,410,624	1,248,680	861,423	861,141	939,349
Total Business-Type Activities	1,446,845	1,286,042	899,752	899,498	939,386
Total Primary Government	$ 6,913,534	$ 6,907,840	$ 6,171,708	$ 5,651,975	$ 5,381,500
Hawaii Total Personal Income	$ 58,129,000	$ 56,248,000	$ 54,413,000	$ 54,181,000	$ 50,131,000
Debt as a Percentage of Personal Income	11.8 %	12.3 %	11.3 %	10.4 %	10.7 %
Hawaii Population	1,375	1,300	1,295	1,287	1,276
Amount of Debt Per Capita	$ 5,003	$ 5,314	$ 4,743	$ 4,392	$ 4,143

Source: State of Hawaii Comprehensive Annual Financial Reports.
State of Hawaii, Department of Business, Economic Development and Tourism - Data Book, Census Data and Quarterly Statistic and Economic Reports (QSER).

Note: Details regarding the State's outstanding debt can be found in the notes to basic financial statements

STATE OF HAWAII

Ratios of Net General Bonded Debt Outstanding

Last Five Fiscal Years
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less Debt Service Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2011	$79,281,000	1,375	$ 4,987,544	$ 109	$4,987,435	6.3%	$ 3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9%	3,967
2009	78,034,000	1,298	4,779,666	68	4,779,598	6.1%	3,682
2008	82,868,000	1,292	4,408,572	22,002	4,386,570	5.3%	3,395
2007	83,453,000	1,299	4,079,714	21,704	4,058,010	5.2%	3,124

(1) Source: State of Hawaii, Department of Taxation.
(2) Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census Data.
(3) Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

Legal Debt Margin Information

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2011				
	2011	2010	2009	2008	2007
Average General Fund revenues of the three preceding fiscal years	$ 4,992,943	$ 5,032,973	$ 5,126,782	$ 5,083,126	$ 4,832,700
Constitutional debt limit percentage	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %
Constitutional debt limit for total principal and interest payable in a current or future year	923,694	931,100	948,455	940,378	894,050
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2011)	(618,711)	(610,255)	(563,266)	(540,348)	(550,696)
Legal debt margin	$ 304,983	$ 320,845	$ 385,189	$ 400,030	$ 343,354
Legal debt margin as a percentage of the debt limit	33.0 %	34.5 %	40.6 %	42.5 %	38.4 %

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

Pledge Revenue Coverage

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30, 2011				
	2011	2010	2009	2008	2007
Revenue Bonds – Airports					
Gross revenue(1)	$ 322,639	$ 295,087	$ 288,583	$ 307,418	$ 286,838
Less: Operating expenses(2)	218,290	214,208	233,896	239,667	211,119
Net available revenue	104,349	80,879	54,687	67,751	75,719
Debt service requirements:					
Principal(3)	25,370	23,615	22,310	21,140	32,250
Interest(4)	35,319	21,300	17,453	26,076	10,868
Total Debt Service	60,689	44,915	39,763	47,216	43,118
Coverage(5)	172 %	180 %	148 %	143 %	176 %
Revenue Bonds – Harbors:					
Gross revenue(6)	$ 88,018	$ 74,155	$ 80,896	$ 96,256	$ 97,414
Less: Operating expenses(7)	37,650	36,930	47,814	49,229	42,967
Net available revenue	50,368	37,225	33,082	47,027	54,447
Debt service requirements	27,965	23,226	23,167	24,290	25,364
Coverage(8)	180 %	160 %	143 %	194 %	215 %
Revenue Bonds – Highways:					
Revenue	$ 197,142	$ 184,852	$ 189,498	$ 213,378	$ 210,989
Less: Operating expenses	165,857	179,400	189,987	184,097	172,167
Net available revenue	31,285	5,452	(489)	29,281	38,822
Debt service:					
Principal	21,570	20,535	16,150	15,495	14,885
Interest	17,195	18,028	15,823	12,930	12,988
Total Debt Service	38,765	38,563	31,973	28,425	27,873
Coverage(9)	81 %	14 %	(2)%	103 %	139 %
Revenue Bonds – Department of Hawaiian Home Lands:					
Revenue	$ 12,036	11,939	$ -	$ -	$ -
Less: Operating expenses	-	-	-	-	-
Net available revenue	12,036	11,939	-	-	-
Debt service:					
Principal	655	640	-	-	-
Interest	2,254	2,370	-	-	-
Total Debt Service	2,909	3,010	-	-	-
Coverage(10)	414 %	397 %	-	-	-

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.

(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.

(3) On January 5, 2005, Airports disbursed $69,300 for the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety

(4) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

For fiscal 2005, Airports deposited $20,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.

For fiscal 2008, Airports deposited $10,000 of available funds into the Airports Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

(5) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.

(6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.

(7) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.

(8) Harbors revenue bond indentures require a minimum debt service coverage percentage of 125%.

(9) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).

(10) DHHL revenue bond indentures require a minimum debt service coverage percentage of 125%.

Coverage equals net available revenue divided by debt services.

Source: Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division

STATE OF HAWAII

Demographic and Economic Statistics

Last Ten Fiscal Years

Source	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	For the Fiscal Year Ended June 30, 2011									
Population (in thousands):										
State	1,375	1,300	1,298	1,292	1,299	1,285	1,266	1,253	1,239	1,228
Percentage change	5.77 %	0.15 %	0.46 %	(0.54)%	1.09 %	1.50 %	1.04 %	1.13 %	0.90 %	0.82 %
National	311,592	308,746	307,007	304,375	301,580	298,593	295,753	293,046	290,326	287,804
Percentage change	0.92 %	0.57 %	0.86 %	0.93 %	1.00 %	0.96 %	0.92 %	0.94 %	0.88 %	0.95 %
Total Personal Income (in millions):										
State	58,129	56,248	54,413	54,181	50,131	47,339	44,111	41,028	37,836	36,367
Percentage change	3.34 %	3.37 %	0.43 %	8.08 %	5.90 %	7.32 %	7.51 %	8.44 %	4.04 %	3.53 %
National	12,691,347	12,530,101	12,015,535	12,225,589	11,879,836	11,256,516	10,476,669	9,928,790	9,369,072	9,054,781
Percentage change	1.29 %	4.28 %	(1.72)%	2.91 %	5.54 %	7.44 %	5.52 %	5.97 %	3.47 %	1.98 %
Per Capita Personal Income (in thousands):										
State	42,276	43,268	42,018	42,099	39,073	37,013	34,788	32,718	30,513	29,591
Percentage change	(2.29)%	2.97 %	(0.19)%	7.74 %	5.57 %	6.40 %	6.33 %	7.23 %	3.12 %	2.69 %
National	40,731	40,584	39,138	40,166	39,392	37,698	35,424	33,881	32,271	31,462
Percentage change	0.36 %	3.69 %	(2.56)%	1.96 %	4.49 %	6.42 %	4.45 %	4.99 %	2.57 %	1.02 %
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	591,329	587,304	594,500	620,000	623,150	622,300	609,850	598,200	592,450	584,350
Unemployed	39,941	41,600	43,250	26,000	17,000	15,800	17,250	19,950	23,850	24,600
Unemployment rate	6.30 %	6.60 %	6.80 %	4.00 %	2.70 %	2.50 %	2.80 %	3.20 %	3.90 %	4.00 %

Source: State of Hawaii, Department of Business, Econcomic Development and Tourism - Census, Data Book and Quarterly Statiscal Economic Report (QSER).
Bureau of Economic Analysis - Regional Economic Accounts
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet (HIWI)

Note: The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

STATE OF HAWAII

Ten Largest Private Sector Employers

Last Six Fiscal Years

	2011		2010		2009		2008		2007		2006	
Employer	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Alexander & Baldwin, Inc.	2,300	0.4 %	2,215	0.3 %	2,386	0.4 %	2,255	0.4 %	-	-	-	-
Aloha Airgroup, Inc.	-	-	-	-	-	-	3,399	0.5 %	3,465	0.5 %	3,375	0.5 %
Bank of Hawaii Corp.	2,484	0.4 %	2,418	0.4 %	-	-	-	-	-	-	-	-
First Hawaiian Bank	2,231	0.4 %	-	-	-	-	-	-	-	-	-	-
Hawaii Pacific Health	5,490	0.9 %	5,344	0.8 %	5,300	0.9 %	5,200	0.8 %	5,200	0.8 %	5,500	0.9 %
Hawaiian Airlines	4,000	0.6 %	3,844	0.6 %	3,700	0.6 %	3,415	0.5 %	3,587	0.6 %	3,300	0.5 %
Hawaiian Electric Industries, Inc	-	-	3,400	0.5 %	3,560	0.6 %	3,519	0.6 %	3,447	0.5 %	3,383	0.5 %
Hilton Waikoloa Village	4,645	0.7 %	3,200	0.5 %	2,766	0.5 %	3,099	0.5 %	-	-	-	-
Kaiser Permanente Hawaii	4,400	0.7 %	4,400	0.7 %	3,396	0.6 %	4,403	0.7 %	4,017	0.6 %	3,969	0.6 %
Kyo-ya Co., Ltd.	3,700	0.6 %	3,535	0.6 %	3,851	0.6 %	3,639	0.6 %	3,764	0.6 %	3,807	0.6 %
Marriott International	-	-	-	-	-	-	-	-	-	-	5,835	0.9 %
McDonald's Restaurants of Hawaii	-	-	-	-	-	-	-	-	3,775	0.6 %	3,775	0.6 %
NCL America	-	-	-	-	-	-	-	-	4,461	0.7 %	3,515	0.6 %
Outrigger Enterprises Group	3,103	0.5 %	3,554	0.6 %	3,123	0.5 %	-	-	-	-	-	-
The Queen's Health System	5,166	0.8 %	5,148	0.8 %	5,059	0.8 %	4,903	0.8 %	4,834	0.8 %	4,351	0.7 %
Starwood Hotels and Resort Hawaii	-	-	-	-	2,425	0.4 %	2,700	0.4 %	2,382	0.4 %	-	-

Source: Hawaii Business News, Annual August Issue (Top Ten Largest Private Sector Employers)
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet - Labor (Total State Employment)

Notes: Total Annual Average Employment for Hawaii for fiscal year 2011, 2010, 2009, 2008, 2007, 2006 and 2005 totaled 631,200, 635,800, 613,700, 632,900, 634,200, 631,450 and 616,850 respectively.

Listed alphabetically.

State Employees by Function

Last Five Fiscal Years

	For the Fiscal Year Ended June 30, 2011				
	2011	2010	2009	2008	2007
General government	4,381	4,381	4,752	4,720	4,523
Public safety	2,864	2,880	3,089	3,011	2,889
Transportation	2,160	2,158	2,290	2,229	2,222
Conservation of natural resources	941	983	1,146	1,126	1,041
Health	6,876	6,863	7,266	6,730	6,909
Welfare	1,788	1,848	2,404	2,312	2,242
Lower education	21,917	22,090	22,675	22,620	23,521
Higher education	8,687	8,732	9,066	8,705	8,619
Other education	473	482	516	518	509
Urban redevelopment and housing	130	146	154	150	147
Economic development and assistance	816	835	1,141	865	850
Total	51,033	51,398	54,499	52,986	53,472

Source: State of Hawaii, Department of Human Resources Development.

STATE OF HAWAII

Operating Indicators by Function

Last Five Fiscal Years

	2011	2010	2009	2008	2007
General Government					
Tax Commission:					
Total individual net income returns	747,237	665,057	682,178	678,305	667,297
Number of individual net income returns filed electronically	388,463	322,515	308,366	271,212	231,154
Percentage of individual net income returns transmitted electronically	52.00 %	48.00 %	45.20 %	39.98 %	34.64 %
Public Safety					
Inmate population:					
In-state facilities	4,423	4,047	3,928	6,014	6,045
Out-of-state facilities	1,667	1,940	2,077	2,014	2,009
Total	6,090	5,987	6,005	8,028	8,054
Conservation and Natural Resources					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	53	53	53
Health					
Environmental health:					
Air quality sites monitored	14	13	14	14	16
Water quality stations	201	290	349	271	363
Mental health:					
Adult consumers served	11,194	14,633	15,772	15,586	13,545
Individuals with developmental disabilities served	2,438	2,661	2,879	2,821	3,360
Revolving loan funds	109	107	102	90	73
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per-month average	10,014	9,448	8,661	8,358	8,381
Average time on assistance	13.0	15.0	14.0	13.0	16.0
Monthly benefits paid for the month of July (in millions)	$ 6.17	$ 5.29	$ 3.46	$ 4.75	$ 4.60
General assistance:					
Individuals per month	5,298	5,068	5,014	4,458	3,955
Food stamp program:					
Number of persons participating	154,496	133,043	109,268	93,956	88,847
Number of households participating	77,133	66,885	54,925	47,545	45,026
Benefits issued (in millions)	$ 33.42	$ 28.74	$ 20.22	$ 14.64	$ 12.84
Medicaid programs:					
MedQuest enrollment (in thousands)	272,218	259,307	235,203	211,105	202,126
Lower Education					
Number of schools	287	286	289	287	286
Number of students	178,208	178,649	177,871	178,369	179,234
Staff:					
Classroom teachers	11,045.8	11,261.8	11,294.2	11,395.8	11,270.3
Librarians	204.0	225.0	248.5	257.5	271.5
Counselors	617.6	645.5	659.5	659.5	669.5
Administrators	733.6	728.0	746.5	772.5	745.5
Other support staff	8,407.7	8,606.8	8,654.3	8,566.3	8,102.6
Total	21,008.7	21,467.1	21,603.0	21,651.6	21,059.4

Operating Indicators by Function (Cont'd)

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
Higher Education					
Enrollment:					
Number of credit students	60,330	60,090	57,945	53,526	50,454
Degrees earned:					
Certificates/Associate Degrees/Advanced Professional Certificates	3,324	3,025	2,785	2,660	2,710
Bachelor's degrees	3,796	3,593	3,705	3,698	3,586
Master's degrees/Professional Diploma	1,269	1,216	1,185	1,269	1,219
Doctor's degrees/First Professional	496	351	354	369	320
Other	103	106	55	-	-
Total	8,988	8,291	8,084	7,996	7,835
Degrees by campus/college:					
University of Hawaii at Manoa	4,675	4,414	4,496	4,566	4,313
University of Hawaii at Hilo	731	601	614	588	592
University of Hawaii at West Oahu	255	242	221	180	217
Hawaii Community College	405	426	386	346	311
Honolulu Community College	559	486	504	520	537
Kapiolani Community College	851	783	702	685	757
Kauai Community College	208	162	163	139	135
Leeward Community College	657	608	503	475	514
Maui Community College	482	416	364	367	336
Windward Community College	165	153	131	130	123
Total	8,988	8,291	8,084	7,996	7,835

N/A Not available

Notes: Migration to new registration system at the UH Community Colleges in Fall 2006 and at UH at Manoa, UH at Hilo, and UH at West Oahu in Fall 2006.

Source: General Government – State of Hawaii, Department of Taxation.
Public Safety – State of Hawaii, Department of Public Safety.
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.
Health – State of Hawaii, Department of Health.
Welfare – State of Hawaii, Department of Human Services.
Lower Education – State of Hawaii, Department of Education.
Higher Education – University of Hawaii.

See accompanying independent auditors' report.

STATE OF HAWAII

Capital Assets Statistics by Function

Last Three Fiscal Years

	For the Fiscal Year Ended June 30, 2011		
	2011	2010	2009
General Government			
Department of Accounting and General Services:			
Buildings	74	74	74
Vehicles	592	582	602
Department of the Attorney General:			
Buildings	5	5	5
Vehicles	3	3	3
The Judiciary:			
Buildings	18	18	18
Vehicles	17	16	15
Other Departments:			
Buildings	24	24	23
Vehicles	4	4	4
Public Safety			
Department of Public Safety:			
Buildings and Correction Facilities	74	73	72
Vehicles	278	277	262
Department of Defense:			
Buildings	97	96	96
Vehicles	81	79	79
Department of Commerce and Consumer Affairs:			
Buildings	4	4	4
Vehicles	-	1	-
Highways			
Department of Transportation:			
Highway lane miles	N/A	2497	2479
Highway bridges	N/A	752	752
Buildings	34	34	34
Vehicles	958	968	963
Conservation of Natural Resources			
Department of Land and Natural Resources:			
Land area (in square miles)	6423	6423	6423
Buildings	95	95	95
Vehicles	758	732	731
Department of Agriculture:			
Buildings	32	32	32
Vehicles	176	186	186

	For the Fiscal Year Ended June 30, 2011		
	2011	2010	2009
Health			
Department of Health:			
Buildings	74	74	72
Vehicles	259	270	284
Welfare			
Department of Human Services:			
Buildings	18	18	18
Vehicles	111	111	117
Lower Education			
Department of Education:			
Buildings	8	8	8
Other Education			
Department of Education — Libraries:			
Buildings	34	34	34
Vehicles	27	28	28
Urban Redevelopment and Housing			
Department of Hawaiian Home Lands:			
Buildings	18	18	17
Vehicles	34	34	34
Economic Development and Assistance			
Department of Business, Economic Development, and Tourism:			
Buildings	33	33	33
Vehicles	33	34	34
Department of Labor and Industrial Relations:			
Buildings	8	8	8
Vehicles	2	2	2

Source: Buildings and Vehicles — State of Hawaii, Department of Accounting and General Services.
Lane Miles and Bridges — State of Hawaii, Department of Transportation.

APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII

TAXATION AND FINANCE

LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term "bonds" shall include bonds, notes and other instruments of indebtedness.

2. The term "general obligation bonds" means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term "net revenues" or "net user tax receipts" means the revenues or receipts derived from:

   a. A public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of the public undertaking, improvement or system, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made; or

   b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term "person" means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

5. The term "rates, rentals and charges" means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

6. The term "reimbursable general obligation bonds" means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political

subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

7. The term "revenue bonds" means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

8. The term "special purpose revenue bonds" means all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law.

9. The term "user tax' means a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system; provided that mortgage recording taxes shall constitute user taxes of a state property insurance program.

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not for profit corporations;

4. Early childhood education and care facilities provided to the general public by not for profit corporations;

5. Low and moderate income government housing programs;

6. Not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities; or

7. Agricultural enterprises serving important agricultural lands,

each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds to assist not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds.

If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person or persons under contract or from any security for such contract or contracts or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bond issue by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sum equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

All general obligation bonds for a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest. The first installment of principal of general obligation bonds and of reimbursable general obligation bonds shall mature not later than five years from the date of issue of such series. The last installment on general obligation bonds shall mature not later than twenty-five years from the date of such issue and the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue. The interest and principal payments of general obligation bonds shall be a first charge on the general fund of the State or political subdivision, as the case may be.

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under section 12, the following shall be excluded:

1. Bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan

program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

9. Bonds issued by or on behalf of the State or by any political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions therefrom permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in section 12 or in this section shall prevent the refunding of any bond at any time.

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APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

as of October 1, 2012

ISSUED AND OUTSTANDING
GENERAL OBLIGATION BONDS AND GENERAL OBLIGATION REFUNDING BONDS
OF THE STATE OF HAWAII.

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
January 1, 1993	90,000,000 Series CA, non-callable	8.000%	January 1,	2013	@	$ 5,000,000.00	$ 5,000,000.00
November 1, 1993	250,000,000, Series CH, non-callable	4.750%	November 1,	2012-2013	@	13,885,000.00	27,770,000.00
December 1, 1996	150,000,000, Series CM, non-callable	6.000%	December 1,	2012	@	8,330,000.00	
		6.500%	December 1,	2013-2016	@	8,330,000.00	41,650,000.00
August 1, 2001	156,750,000, Series CW, callable (refunding)	4.500%	August 1,	2013	@	1,220,000.00	$ 1,220,000.00
February 15, 2002	319,290,000, Series CY, non-callable refunding	5.750%	February 1,	2013	@	38,920,000.00	
		5.750%	February 1,	2014	@	41,160,000.00	
		5.750%	February 1,	2015	@	43,525,000.00	123,605,000.00
November 26, 2002	300,000,000, Series CZ, callable	3.750%	July 1,	2013	@	1,945,000.00	$ 1,945,000.00
September 16, 2003	225,000,000 Series DA, callable	4.000%	September 1,	2013	@	11,955,000.00	
		4.200%	September 1,	2014	@	4,355,000.00	
		4.300%	September 1,	2015	@	1,475,000.00	
		5.250%	September 1,	2015	@	11,670,000.00	
		4.500%	September 1,	2017	@	180,000.00	
		5.250%	September 1,	2017	@	7,125,000.00	
		4.600%	September 1,	2018	@	625,000.00	
		5.250%	September 1,	2018	@	7,070,000.00	
		5.250%	September 1,	2019	@	8,100,000.00	
		4.750%	September 1,	2020	@	20,000.00	
		5.250%	September 1,	2020	@	8,520,000.00	
		4.800%	September 1,	2021	@	255,000.00	
		5.250%	September 1,	2021	@	8,750,000.00	
		4.900%	September 1,	2022	@	130,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due					Outstanding Principal
		5.250%	September 1,	2022	@	9,360,000.00		
		4.900%	September 1,	2023	@	2,340,000.00		
		5.250%	September 1,	2023	@	7,650,000.00		89,580,000.00
September 16, 2003	188,650,000, Series DB, callable	4.250%	September 1,	2013	@	3,380,000.00		
		5.250%	September 1,	2013	@	18,435,000.00		
		4.000%	September 1,	2014	@	5,000,000.00		
		5.250%	September 1,	2014	@	15,145,000.00		
		5.250%	September 1,	2015	@	24,150,000.00		
		5.250%	September 1,	2016	@	19,655,000.00		85,765,000.00
May 13, 2004	225,000,000, Series DD, callable	3.800%	May 1,	2013	@	1,090,000.00		
		5.000%	May 1,	2013	@	10,465,000.00		
		4.000%	May 1,	2014	@	4,060,000.00		
		5.250%	May 1,	2014	@	8,055,000.00		
		4.125%	May 1,	2015	@	2,295,000.00		
		5.250%	May 1,	2015	@	7,710,000.00		
		4.200%	May 1,	2016	@	790,000.00		
		5.000%	May 1,	2016	@	7,725,000.00		
		4.400%	May 1,	2019	@	610,000.00	$	42,800,000.00
November 10, 2004	225,000,000 Series DE, callable	5.000%	October 1,	2013	@	10,610,000.00		
		3.375%	October 1,	2013	@	950,000.00		
		5.000%	October 1,	2014	@	7,420,000.00		
		3.500%	October 1,	2014	@	4,685,000.00		
		5.000%	October 1,	2015	@	11,665,000.00		
		3.600%	October 1,	2015	@	1,020,000.00		
		3.750%	October 1,	2017	@	130,000.00		
		5.000%	October 1,	2018	@	14,380,000.00		
		3.800%	October 1,	2018	@	320,000.00		
		5.000%	October 1,	2019	@	11,705,000.00		
		3.875%	October 1,	2019	@	1,490,000.00		
		5.000%	October 1,	2020	@	12,935,000.00		
		4.000%	October 1,	2020	@	785,000.00		
		5.000%	October 1,	2021	@	16,425,000.00		
		4.000%	October 1,	2021	@	375,000.00		
		4.125%	October 1,	2022	@	3,545,000.00		
		4.200%	October 1,	2023	@	1,530,000.00		
		5.000%	October 1,	2024	@	12,565,000.00		
		4.300%	October 1,	2024	@	7,165,000.00		119,700,000.00
June 15, 2005	225,000,000, Series DF, callable	3.500%	July 1,	2013	@	1,855,000.00		
		5.000%	July 1,	2013	@	8,660,000.00		
		3.600%	July 1,	2014	@	955,000.00		

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
		5.000%	July 1,	2014	@	10,075,000.00	
		3.625%	July 1,	2015	@	1,800,000.00	
		5.000%	July 1,	2015	@	9,780,000.00	
		3.750%	July 1,	2016	@	60,000.00	
		5.000%	July 1,	2016	@	8,300,000.00	
		3.800%	July 1,	2017	@	25,000.00	
		5.000%	July 1,	2017	@	2,055,000.00	
		3.800%	July 1,	2018	@	25,000.00	
		5.000%	July 1,	2018	@	13,410,000.00	
		3.875%	July 1,	2019	@	70,000.00	
		5.000%	July 1,	2019	@	11,555,000.00	
		5.000%	July 1,	2020	@	14,850,000.00	
		3.875%	July 1,	2021	@	185,000.00	
		5.000%	July 1,	2021	@	15,425,000.00	
		4.000%	July 1,	2022	@	125,000.00	
		5.000%	July 1,	2022	@	11,405,000.00	
		5.000%	July 1,	2023	@	5,550,000.00	
		4.000%	July 1,	2024	@	270,000.00	
		5.000%	July 1,	2024	@	17,865,000.00	
		4.000%	July 1,	2025	@	2,900,000.00	
		5.000%	July 1,	2025	@	16,145,000.00	$ 153,345,000.00
June 15, 2005	722,575,000, Series DG, callable	5.000%	July 1,	2013	@	79,620,000.00	
		5.000%	July 1,	2014	@	83,705,000.00	
		5.000%	July 1,	2015	@	87,995,000.00	
		5.000%	July 1,	2016	@	92,510,000.00	
		5.000%	July 1,	2017	@	97,255,000.00	441,085,000.00
March 23, 2006	350,000,000, Series DI, callable	3.800%	March 1,	2013	@	4,170,000.00	
		4.000%	March 1,	2013	@	2,250,000.00	
		5.500%	March 1,	2013	@	9,340,000.00	
		3.900%	March 1,	2014	@	1,390,000.00	
		5.000%	March 1,	2014	@	15,130,000.00	
		3.900%	March 1,	2015	@	1,065,000.00	
		4.500%	March 1,	2015	@	4,000,000.00	
		5.000%	March 1,	2015	@	12,270,000.00	
		4.000%	March 1,	2016	@	7,135,000.00	
		5.000%	March 1,	2016	@	11,030,000.00	
		4.000%	March 1,	2017	@	1,705,000.00	
		4.000%	March 1,	2018	@	885,000.00	
		5.000%	March 1,	2018	@	19,050,000.00	
		4.125%	March 1,	2019	@	235,000.00	
		5.000%	March 1,	2019	@	20,690,000.00	
		4.125%	March 1,	2020	@	340,000.00	
		5.000%	March 1,	2020	@	21,630,000.00	
		4.200%	March 1,	2021	@	105,000.00	
		5.000%	March 1,	2021	@	22,960,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
		4.250%	March 1,	2022	@	135,000.00	
		5.000%	March 1,	2022	@	24,080,000.00	
		5.000%	March 1,	2023	@	25,425,000.00	
		4.250%	March 1,	2024	@	50,000.00	
		5.000%	March 1,	2024	@	26,650,000.00	
		5.000%	March 1,	2025	@	28,035,000.00	
		4.300%	March 1,	2026	@	460,000.00	
		5.000%	March 1,	2026	@	28,975,000.00	$ 289,190,000.00
April 12, 2007	350,000,000, Series DJ, callable	4.000%	April 1,	2013	@	6,315,000.00	
		5.000%	April 1,	2013	@	8,790,000.00	
		3.700%	April 1,	2014	@	2,705,000.00	
		4.500%	April 1,	2014	@	2,450,000.00	
		5.000%	April 1,	2014	@	10,640,000.00	
		3.750%	April 1,	2015	@	2,140,000.00	
		5.000%	April 1,	2015	@	14,395,000.00	
		4.000%	April 1,	2016	@	8,990,000.00	
		4.500%	April 1,	2016	@	2,250,000.00	
		5.000%	April 1,	2016	@	6,095,000.00	
		3.800%	April 1,	2017	@	3,115,000.00	
		4.500%	April 1,	2017	@	375,000.00	
		5.000%	April 1,	2017	@	14,610,000.00	
		5.000%	April 1,	2018	@	18,970,000.00	
		5.000%	April 1,	2019	@	19,915,000.00	
		5.000%	April 1,	2020	@	5,910,000.00	
		5.000%	April 1,	2021	@	21,960,000.00	
		5.000%	April 1,	2022	@	23,055,000.00	
		5.000%	April 1,	2023	@	24,210,000.00	
		5.000%	April 1,	2024	@	25,420,000.00	
		5.000%	April 1,	2025	@	26,690,000.00	
		5.000%	April 1,	2026	@	28,025,000.00	
		5.000%	April 1,	2027	@	29,425,000.00	$ 306,450,000.00
May 20, 2008	375,000,000, Series DK, callable	3.500%	May 1,	2013	@	5,505,000.00	
		5.000%	May 1,	2013	@	9,935,000.00	
		5.000%	May 1,	2014	@	16,130,000.00	
		3.750%	May 1,	2015	@	4,420,000.00	
		5.000%	May 1,	2015	@	12,520,000.00	
		5.000%	May 1,	2016	@	17,730,000.00	
		5.000%	May 1,	2017	@	18,615,000.00	
		5.000%	May 1,	2018	@	19,545,000.00	
		4.000%	May 1,	2019	@	3,600,000.00	
		4.250%	May 1,	2019	@	6,350,000.00	
		5.000%	May 1,	2019	@	9,495,000.00	
		4.100%	May 1,	2020	@	9,705,000.00	
		5.000%	May 1,	2020	@	11,760,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
		4.200%	May 1,	2021	@	3,125,000.00	
		5.000%	May 1,	2021	@	19,325,000.00	
		4.250%	May 1,	2022	@	2,335,000.00	
		5.000%	May 1,	2022	@	21,215,000.00	
		4.300%	May 1,	2023	@	3,735,000.00	
		5.000%	May 1,	2023	@	20,975,000.00	
		4.375%	May 1,	2024	@	1,685,000.00	
		5.000%	May 1,	2024	@	24,235,000.00	
		4.400%	May 1,	2025	@	2,445,000.00	
		5.000%	May 1,	2025	@	24,760,000.00	
		4.400%	May 1,	2026	@	1,900,000.00	
		5.000%	May 1,	2026	@	26,650,000.00	
		4.500%	May 1,	2027	@	3,255,000.00	
		5.000%	May 1,	2027	@	26,710,000.00	
		4.500%	May 1,	2028	@	5,670,000.00	
		5.000%	May 1,	2028	@	25,780,000.00	$ 359,110,000.00
May 20, 2008	29,010,000, Series DL, non-callable	3.500%	May 1,	2013	@	3,860,000.00	
	(refunding)	3.250%	May 1,	2014	@	3,995,000.00	
		3.750%	May 1,	2015	@	4,120,000.00	
		3.500%	May 1,	2016	@	4,275,000.00	
		3.700%	May 1,	2017	@	4,425,000.00	
		5.000%	May 1,	2018	@	4,590,000.00	$ 25,265,000.00
May 20, 2008	25,000,000, Series DM, non-callable	4.460%	May 1,	2013	@	4,395,000.00	
	(taxable)	4.670%	May 1,	2014	@	4,590,000.00	$ 8,985,000.00
December 16, 2008	100,000,000, Series DN, callable	5.000%	August 1,	2013	@	4,045,000.00	
		3.500%	August 1,	2014	@	2,435,000.00	
		5.000%	August 1,	2014	@	1,800,000.00	
		5.000%	August 1,	2015	@	4,430,000.00	
		5.000%	August 1,	2016	@	4,660,000.00	
		5.000%	August 1,	2017	@	4,900,000.00	
		4.250%	August 1,	2018	@	935,000.00	
		5.000%	August 1,	2018	@	4,210,000.00	
		5.000%	August 1,	2019	@	5,405,000.00	
		5.000%	August 1,	2020	@	5,685,000.00	
		5.000%	August 1,	2021	@	5,975,000.00	
		5.000%	August 1,	2022	@	6,280,000.00	
		5.000%	August 1,	2023	@	6,600,000.00	
		5.125%	August 1,	2024	@	6,945,000.00	
		5.250%	August 1,	2025	@	7,315,000.00	
		5.500%	August 1,	2026	@	7,720,000.00	
		5.500%	August 1,	2027	@	8,155,000.00	
		5.500%	August 1,	2028	@	8,620,000.00	$ 96,115,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due					Outstanding Principal
December 16, 2008	101,825,000, Series DO, non-callable	3.250%	August 1,	2013	@	5,905,000.00		
	(refunding)	5.000%	August 1,	2013	@	5,970,000.00		
		3.500%	August 1,	2014	@	8,610,000.00		
		5.000%	August 1,	2014	@	3,750,000.00		
		3.500%	August 1,	2015	@	6,425,000.00		
		5.000%	August 1,	2015	@	6,455,000.00		
		4.000%	August 1,	2016	@	6,710,000.00		
		5.000%	August 1,	2016	@	6,745,000.00		
		4.000%	August 1,	2017	@	4,835,000.00		
		5.000%	August 1,	2017	@	9,255,000.00		
		4.250%	August 1,	2018	@	7,350,000.00		
		5.000%	August 1,	2018	@	7,410,000.00	$	79,420,000.00
December 16, 2008	26,000,000, Series DP, non-callable	4.650%	August 1,	2013	@	4,195,000.00		
	(taxable)	5.180%	August 1,	2014	@	4,405,000.00		
		5.430%	August 1,	2015	@	4,645,000.00		
		5.680%	August 1,	2016	@	4,910,000.00	$	18,155,000.00
June 23, 2009	500,000,000, Series DQ, callable	3.000%	June 1,	2013	@	10,480,000.00		
		4.000%	June 1,	2013	@	9,245,000.00		
		4.000%	June 1,	2014	@	8,265,000.00		
		5.000%	June 1,	2014	@	6,460,000.00		
		5.000%	June 1,	2015	@	21,345,000.00		
		5.000%	June 1,	2016	@	18,310,000.00		
		5.000%	June 1,	2017	@	23,535,000.00		
		5.000%	June 1,	2018	@	24,710,000.00		
		5.000%	June 1,	2019	@	25,945,000.00		
		3.600%	June 1,	2020	@	1,330,000.00		
		5.000%	June 1,	2020	@	25,910,000.00		
		3.750%	June 1,	2021	@	2,015,000.00		
		5.000%	June 1,	2021	@	26,570,000.00		
		4.000%	June 1,	2022	@	475,000.00		
		5.000%	June 1,	2022	@	29,515,000.00		
		4.000%	June 1,	2023	@	2,105,000.00		
		5.000%	June 1,	2023	@	29,380,000.00		
		4.125%	June 1,	2024	@	1,950,000.00		
		5.000%	June 1,	2024	@	31,090,000.00		
		5.000%	June 1,	2025	@	34,670,000.00		
		5.000%	June 1,	2026	@	36,405,000.00		
		5.000%	June 1,	2027	@	38,225,000.00		
		5.000%	June 1,	2028	@	40,140,000.00		
		4.500%	June 1,	2029	@	8,070,000.00		
		5.000%	June 1,	2029	@	34,075,000.00	$	490,220,000.00
June 23, 2009	225,410,000, Series DR, non-callable	3.000%	June 1,	2014	@	13,960,000.00		

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
		4.000%	June 1,	2014	@	19,715,000.00	
		3.000%	June 1,	2015	@	3,785,000.00	
		4.000%	June 1,	2015	@	7,460,000.00	
		5.000%	June 1,	2015	@	23,640,000.00	
		3.500%	June 1,	2016	@	2,275,000.00	
		4.000%	June 1,	2016	@	5,075,000.00	
		5.000%	June 1,	2016	@	21,130,000.00	
		3.000%	June 1,	2017	@	1,085,000.00	
		4.000%	June 1,	2017	@	1,435,000.00	
		5.000%	June 1,	2017	@	35,700,000.00	
		4.000%	June 1,	2018	@	3,435,000.00	
		5.000%	June 1,	2018	@	23,155,000.00	
		4.000%	June 1,	2019	@	3,805,000.00	
		4.250%	June 1,	2019	@	15,195,000.00	
		5.000%	June 1,	2019	@	23,060,000.00	$ 203,910,000.00
November 5, 2009	32,000,000, Series DS, tax credit bonds	0.000%	September 15,	2014	@	2,840,000.00	
		0.000%	September 15,	2015	@	2,840,000.00	
		0.200%	September 15,	2016	@	2,840,000.00	
		0.400%	September 15,	2017	@	2,840,000.00	
		0.600%	September 15,	2018	@	2,880,000.00	
		0.800%	September 15,	2019	@	2,880,000.00	
		1.000%	September 15,	2020	@	2,920,000.00	
		1.200%	September 15,	2021	@	2,960,000.00	
		1.300%	September 15,	2022	@	2,960,000.00	
		1.350%	September 15,	2023	@	3,000,000.00	
		1.450%	September 15,	2024	@	3,040,000.00	$ 32,000,000.00
November 24, 2009	204,140,000, Series DT, non-callable	2.250%	November 1,	2014	@	3,000,000.00	
		4.000%	November 1,	2014	@	18,000,000.00	
		5.000%	November 1,	2014	@	9,255,000.00	
		2.500%	November 1,	2015	@	2,000,000.00	
		4.000%	November 1,	2015	@	11,500,000.00	
		5.000%	November 1,	2015	@	18,085,000.00	
		2.750%	November 1,	2016	@	600,000.00	
		3.500%	November 1,	2016	@	2,750,000.00	
		5.000%	November 1,	2016	@	29,745,000.00	
		3.000%	November 1,	2017	@	1,500,000.00	
		4.000%	November 1,	2017	@	4,250,000.00	
		5.000%	November 1,	2017	@	28,975,000.00	
		3.250%	November 1,	2018	@	6,090,000.00	
		4.000%	November 1,	2018	@	5,240,000.00	
		5.000%	November 1,	2018	@	25,060,000.00	
		3.500%	November 1,	2019	@	4,250,000.00	
		4.500%	November 1,	2019	@	18,250,000.00	
		5.000%	November 1,	2019	@	15,590,000.00	$ 204,140,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
November 24, 2009	46,855,000, Series DV, non-callable	2.000%	November 1,	2012	@	7,040,000.00	
		4.000%	November 1,	2012	@	6,790,000.00	
		5.000%	November 1,	2012	@	33,025,000.00	$ 46,855,000.00
November 24, 2009	36,425,000, Series DW, non-callable	2.250%	November 1,	2013	@	10,000,000.00	
		4.000%	November 1,	2013	@	11,250,000.00	
		5.000%	November 1,	2013	@	15,175,000.00	$ 36,425,000.00
February 18, 2010	500,000,000, Series DX, BABs, callable	3.000%	February 1,	2015	@	22,405,000.00	
	(Optional Make-Whole Redemptions)	3.380%	February 1,	2016	@	23,080,000.00	
		3.730%	February 1,	2017	@	23,860,000.00	
		4.090%	February 1,	2018	@	24,745,000.00	
		4.290%	February 1,	2019	@	25,760,000.00	
		4.450%	February 1,	2020	@	26,865,000.00	
		4.600%	February 1,	2021	@	28,060,000.00	
		4.800%	February 1,	2022	@	29,350,000.00	
		4.950%	February 1,	2023	@	30,760,000.00	
		5.100%	February 1,	2024	@	32,280,000.00	
		5.230%	February 1,	2025	@	33,930,000.00	
		5.330%	February 1,	2026	@	35,705,000.00	
		5.430%	February 1,	2027	@	37,605,000.00	
		5.480%	February 1,	2028	@	39,650,000.00	
		5.510%	February 1,	2029	@	41,820,000.00	
		5.530%	February 1,	2030	@	44,125,000.00	$ 500,000,000.00
February 18, 2010	221,265,000, Series DY, non-callable	3.000%	February 1,	2015	@	7,000,000.00	
		4.000%	February 1,	2015	@	12,000,000.00	
		5.000%	February 1,	2015	@	14,100,000.00	
		3.000%	February 1,	2016	@	9,730,000.00	
		4.000%	February 1,	2016	@	12,000,000.00	
		5.000%	February 1,	2016	@	12,770,000.00	
		3.500%	February 1,	2017	@	3,715,000.00	
		4.000%	February 1,	2017	@	10,550,000.00	
		5.000%	February 1,	2017	@	21,645,000.00	
		4.000%	February 1,	2018	@	6,915,000.00	
		5.000%	February 1,	2018	@	30,625,000.00	
		4.000%	February 1,	2019	@	9,000,000.00	
		5.000%	February 1,	2019	@	30,350,000.00	
		4.000%	February 1,	2020	@	11,485,000.00	
		5.000%	February 1,	2020	@	29,740,000.00	$ 221,625,000.00
December 7, 2011	800,000,000, Series DZ, callable	5.000%	December 1,	2016	@	33,510,000.00	
		5.000%	December 1,	2017	@	35,230,000.00	
		5.000%	December 1,	2018	@	37,035,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due				Outstanding Principal
		5.000%	December 1,	2019	@	38,935,000.00	
		5.000%	December 1,	2020	@	40,935,000.00	
		5.000%	December 1,	2021	@	43,030,000.00	
		5.000%	December 1,	2022	@	45,240,000.00	
		5.000%	December 1,	2023	@	47,560,000.00	
		5.000%	December 1,	2024	@	49,995,000.00	
		3.500%	December 1,	2025	@	4,400,000.00	
		5.000%	December 1,	2025	@	48,125,000.00	
		5.000%	December 1,	2026	@	55,185,000.00	
		3.750%	December 1,	2027	@	3,635,000.00	
		5.000%	December 1,	2027	@	54,360,000.00	
		5.000%	December 1,	2028	@	60,945,000.00	
		5.000%	December 1,	2029	@	64,070,000.00	
		4.000%	December 1,	2030	@	18,455,000.00	
		5.000%	December 1,	2030	@	48,805,000.00	
		4.000%	December 1,	2031	@	12,805,000.00	
		5.000%	December 1,	2031	@	57,745,000.00	$ 800,000,000.00
December 7, 2011	403,455,000, Series EA (refunding),	2.000%	December 1,	2016	@	2,525,000.00	
	callable	4.000%	December 1,	2016	@	1,900,000.00	
		5.000%	December 1,	2016	@	38,080,000.00	
		2.250%	December 1,	2017	@	1,180,000.00	
		4.000%	December 1,	2017	@	10,100,000.00	
		5.000%	December 1,	2017	@	33,290,000.00	
		2.500%	December 1,	2018	@	555,000.00	
		4.000%	December 1,	2018	@	1,700,000.00	
		5.000%	December 1,	2018	@	44,515,000.00	
		3.000%	December 1,	2019	@	2,940,000.00	
		4.000%	December 1,	2019	@	13,440,000.00	
		5.000%	December 1,	2019	@	32,675,000.00	
		3.000%	December 1,	2020	@	2,745,000.00	
		4.000%	December 1,	2020	@	16,635,000.00	
		5.000%	December 1,	2020	@	31,980,000.00	
		3.000%	December 1,	2021	@	950,000.00	
		4.000%	December 1,	2021	@	20,165,000.00	
		5.000%	December 1,	2021	@	32,650,000.00	
		3.250%	December 1,	2022	@	1,875,000.00	
		4.000%	December 1,	2022	@	13,765,000.00	
		5.000%	December 1,	2022	@	40,680,000.00	
		3.000%	December 1,	2023	@	1,000,000.00	
		5.000%	December 1,	2023	@	58,110,000.00	$ 403,455,000.00
December 7, 2011	2,800,000, Series EB (refunding), non-callable	2.000%	December 1,	2012	@	2,800,000.00	$ 2,800,000.00
December 7, 2011	56,225,000, Series EC (refunding),	2.000%	December 1,	2013	@	975,000.00	
	non-callable	3.000%	December 1,	2013	@	15,000,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Date and Amount Due					Outstanding Principal
		5.000%	December 1,	2013	@	40,250,000.00	$	56,225,000.00
December 7, 2011	23,750,000, Series ED (refunding),	2.000%	December 1,	2015	@	2,350,000.00		
	non-callable	3.000%	December 1,	2015	@	1,615,000.00		
		5.000%	December 1,	2015	@	19,785,000.00	$	23,750,000.00
Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding.*								$ 5,337,560,000.00

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* As of October 1, 2012. Does not reflect the expected issuance on December 4, 2012, of $444,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2012, Series EE, $396,990,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2012, Series EF, and $26,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2012, Series EG, as described in this Official Statement.

APPENDIX E

PENDING LITIGATION

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990 ("Act 304"), which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001), that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency.

On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii, et al*., Civil No. 03-1-1505-07 ("*OHA II*"). The Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust relating to Congress' passage of Section 340 of the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169, which prospectively prohibited the payment of airport revenues from Ceded Lands to OHA. They also alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non disclosure. The state circuit court entered a final judgment dismissing OHA's complaint on May 19, 2004. OHA appealed to the Hawaii Supreme Court and the Court affirmed the final judgment of the circuit court on April 26, 2006.

In 2006, the Legislature enacted Act 178, SLH 2006 ("Act 178"), to re-establish a mechanism for OHA to receive a portion of the income and proceeds from the Ceded Lands, for native Hawaiians, under Article XII, Sections 4 and 6 of the Hawaii Constitution. Among other things, Act 178 directs state agencies that collect receipts from the Ceded Lands to annually transfer a total of $15,100,000 in four equal quarterly installments to OHA, and directs the Governor to issue an executive order to establish procedures for this purpose. The Governor issued Executive Order No. 06-06 on September 20, 2006.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the Court to compel the members of the Twenty-Sixth Legislature to enact legislation to pay OHA what OHA believed represented unpaid portions of the income and proceeds derived from the Ceded Lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The Court entered an order denying the petition on August 18, 2010.

On April 11, 2012, the Governor signed Act 15, SLH 2012 ("Act 15"), into law. Act 15 conveys fee simple title to nine parcels of land located at Kakaako in Honolulu, valued at approximately $200,000,000, to OHA, as of July, 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands, under Article XII, Sections 4 and 6 of the Hawaii Constitution or any related statute or act, between November 7, 1978 (the date Article XII, Sections 4, 5, and 6 of the Hawaii Constitution were ratified) and June 30, 2012. Act 15 also withdrew any waiver of sovereign immunity the State may previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provisions.

Until the Legislature alters the amount or establishes a different means for implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC," since succeeded by the Hawaii Housing Finance and Development Corporation, as described below) and to the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit

Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States…and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009, all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General filed a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join in the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the circuit court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filed in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

OHA also filed suit against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the suits against them described above were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, the corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

While all but one of the claims relating to the Ceded Lands asserted by OHA described above have been resolved, the State intends to defend vigorously against OHA's remaining claim, and any other claims described above that may be asserted by OHA or others in the future.

Department of Hawaiian Home Lands

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima et al. v. Cayetano*, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima et al. v. State of Hawaii et al.*, Civil No. 99-4771 12VSM (1st Cir.) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (1st Cir.); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (1st Cir.); and *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4772-12 (1st Cir.). The plaintiffs in these other actions stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiffs Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (1st Cir.) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*.

On August 30, 2000, the circuit court entered an order in *Kalima I* granting plaintiffs' motion for summary judgment and declaratory relief as to Count I of the complaint, and denying the State's motion for judgment on the pleadings. Essentially, the circuit court rejected the sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court and entered an order staying all proceedings in *Kalima I* pending the Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trial. By an opinion issued June 30, 2006, the Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs have since filed first and second amended complaints to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied.

After competing motions were filed by the opposing parties to establish a model to calculate damages suffered by each subclass member as a result of the breaches of trust, on January 24, 2012, the circuit court issued an order that, inter alia, stated that 1) for purposes of the computation of damages, the time to run would start at the earliest six years from the date a beneficiary's application is accepted for placement on the list to receive homesteads, 2) denied Steps 1 and 2 of Defendant's proposed damages model, 3) called for motions to be presented by the parties to determine issues that the parties wish to raise with respect to individualized circumstances that can be determined on a class-wide basis, and 4) stated that after resolution of the motions referenced in 3), the Court would determine the model to be used to calculate damages and whether referral to a Special Master to make such calculations is appropriate. Defendants filed a motion for reconsideration of the above-described order, which was subsequently denied.

The parties filed motions to determine issues with respect to individualized circumstances that can be determined on a class-wide basis on February 10, 2012. The hearing on those motions was postponed to permit notices to opt-out of the Waiting List Damages Model Subclass to be given. The Notice informed members of their right to opt-out by July 15, 2012, and to file damage claims on or before September 1, 2012. Ten individuals opted-out; to the best of the State's knowledge, none filed a separate damage claim on or before September 1, 2012. The motions filed on February 10, 2012 were heard on August 31, 2012. The circuit court has not yet entered a written order disposing of the motions.

Trial on out of pocket damages, if necessary, has been scheduled for March 4, 2013.

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007 but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the Department of Hawaiian Home Lands ("DHHL") and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under Article XII, Sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of Article XII, Sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, in an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011.

The Hawaii Supreme Court, on May 9, 2012, concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. In the meantime, plaintiffs are seeking attorneys fees, which all defendants oppose.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson*. The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated Article XVI, Section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in Article XVI, Section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346.9 million of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims.

A description of the ERS and Act 100 is provided under "EMPLOYEE RELATIONS: STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). *See Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii ("Civil No. 06-1-1141-06"). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that: (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003 to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the ERS Board's decision to the First Circuit Court. *See Marion Everson, et al. v. Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund, et al.*, Civil No. 07-1-1872-10, First Circuit Court, State of Hawaii. By order dated July 23, 2008, the First Circuit Court reversed the decision of the EUTF Board holding, in part, that: (a) "accrued benefits" under Article XVI, Section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires that retirees and their dependents be provided with health benefits plans that provide health benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) again claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by not providing health care benefits to retirees and their dependents that are equivalent to those provides to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, for physical damages caused by their foregoing or delaying health care due to insufficient coverage in their EUTF health plans, and for pain and suffering caused by their delaying, foregoing, or personally paying for health care that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated December 4, 2012

\$444,000,000 **General Obligation Bonds** **of 2012, Series EE**	**\$396,990,000** **General Obligation Refunding** **Bonds of 2012, Series EF**

\$26,000,000
Taxable General Obligation Bonds of
2012, Series EG

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of its \$444,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2012, Series EE, its \$396,990,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2012, Series EF, and its \$26,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2012, Series EG (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5)(i).

Section 2. Definitions. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the State and which has filed with the State a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriters" shall mean any original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2011, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than 15 business days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State).

(c) If the State is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the State shall provide to the MSRB a notice in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Contents of Annual Reports. The State's Annual Report shall contain or include by reference updates of the following information included in Appendix B to the final Official Statement (the "Official Statement") dated November 15, 2012, relating to the Bonds:

(1) Summary of Total Indebtedness of the State of Hawaii;

(2) Revenue Projections; Certain Tax Collections – General Fund Tax Revenues; and

(3) Revenue Projections; Certain Tax Collections – Actual Collections and Distributions.

The audited financial statements of the State for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been (i) available to the public on the MSRB's website or (ii) filed with the Securities and Exchange Commission. The State shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) modifications to rights of Bondholders, if material;

(4) bond calls, if material, and tender offers;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions, material notices of determinations with respect to the tax status of the Series EE Bonds or the Series EF Bonds or other material events affecting the tax-exempt status of the Bonds;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;

(9) unscheduled draws on the credit enhancements reflecting financial difficulties;

(10) Substitution of credit or liquidity providers or their failure to perform;

(11) release, substitution or sale of property securing repayment of the Bonds, if material;

(12) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause 12: For the purposes of the event identified in clause 12 above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The State shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB.

Section 6. Filings with MSRB. All Annual Reports, notices of Listed Events and other notices and information provided to the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements), accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate with respect to each Bond upon the legal defeasance or payment in full of such Bond. If the obligations of the State under this Disclosure Certificate with respect to all Bonds terminate prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 8. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this, Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 13. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By____________________________

KALBERT K. YOUNG
Director of Finance
State of Hawaii

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii General Obligation Bonds of 2012, Series EE State of Hawaii General Obligation Refunding Bonds of 2012, Series EF State of Hawaii Taxable General Obligation Bonds of 2012, Series EG
Date of Issuance:	December 4, 2012

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated December 4 2012. [The State anticipates that the Annual Report will be filed by __________.]

Dated: STATE OF HAWAII

By:________________________________

Name:______________________________

Title:_______________________________

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

December 4, 2012

State of Hawaii
Honolulu, Hawaii

State of Hawaii
General Obligation Bonds of 2012, Series EE, General Obligation Refunding Bonds of 2012, Series EF,
and Taxable General Obligation Bonds of 2012, Series EG
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the State of Hawaii (the "State") in connection with the issuance of $444,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2012, Series EE (the "Series EE Bonds"), $396,990,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2012, Series EF (the "Series EF Bonds"), and $26,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2012, Series EG (the "Series EG Bonds", and, together with the Series EE Bonds and the Series EF Bonds, the "Bonds"), pursuant to a Certificate of the Director of Finance of the State dated as of November 15, 2012 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series EE Bonds or the Series EF Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid and binding obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the general fund of the State to the punctual payment of which the full faith and credit of the State are pledged.

4. Interest on the Series EE Bonds and the Series EF Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Series EE Bonds and the Series EF Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series EG Bonds is not excludable from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Series EG Bonds Circular 230 Disclaimer.

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties that may be imposed under the Code, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX H

BOOK-ENTRY SYSTEM

General. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of each series of the Bonds bearing interest at the same rate, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "Book-Entry System," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of an issue are being redeemed, DTC's practice is to be determined by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal and redemption price of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the State or the Underwriters.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as owner of the Bonds or (v) any other event or purpose.

APPENDIX I

BONDS TO BE REFUNDED

The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in the table below.

Schedule of Bonds to be Refunded

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
Hawaii GO Series 2004DD	610,000	5/1/2019	4.400	5/1/2014	100.00	419780F3
Hawaii GO Series 2004DE	130,000	10/1/2017	3.750	10/1/2014	100.00	419780K6
	14,380,000	10/1/2018	5.000	10/1/2014	100.00	419780K9
	320,000	10/1/2018	3.800	10/1/2014	100.00	419780K8
	11,705,000	10/1/2019	5.000	10/1/2014	100.00	419791M7
	1,490,000	10/1/2019	3.875	10/1/2014	100.00	419780L2
	12,935,000	10/1/2020	5.000	10/1/2014	100.00	419791M8
	785,000	10/1/2020	4.000	10/1/2014	100.00	419780L4
	16,425,000	10/1/2021	5.000	10/1/2014	100.00	419791M9
	375,000	10/1/2021	4.000	10/1/2014	100.00	419780L6
	3,545,000	10/1/2022	4.125	10/1/2014	100.00	419780L8
	1,530,000	10/1/2023	4.200	10/1/2014	100.00	419780M2
	12,565,000	10/1/2024	5.000	10/1/2014	100.00	419780M5
	7,165,000	10/1/2024	4.300	10/1/2014	100.00	419780M4
	83,350,000					
Hawaii GO Series 2005DF	25,000	7/1/2017	3.800	7/1/2015	100.00	419780Q2
	2,055,000	7/1/2017	5.000	7/1/2015	100.00	419791N8
	25,000	7/1/2018	3.800	7/1/2015	100.00	419780Q4
	13,410,000	7/1/2018	5.000	7/1/2015	100.00	419780Q5
	70,000	7/1/2019	3.875	7/1/2015	100.00	419780Q6
	10,580,000	7/1/2019	5.000	7/1/2015	100.00	419791N9
	11,445,000	7/1/2020	5.000	7/1/2015	100.00	419780Q8
	9,675,000	7/1/2021	5.000	7/1/2015	100.00	419780R2
	125,000	7/1/2022	4.000	7/1/2015	100.00	419780R3
	11,405,000	7/1/2022	5.000	7/1/2015	100.00	419791P2
	5,550,000	7/1/2023	5.000	7/1/2015	100.00	419791P3
	17,865,000	7/1/2024	5.000	7/1/2015	100.00	419780R7
	82,230,000					
Hawaii GO Series 2006DI	885,000	3/1/2018	4.000	3/1/2016	100.00	4197804C

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
	19,050,000	3/1/2018	5.000	3/1/2016	100.00	4197804D
	235,000	3/1/2019	4.125	3/1/2016	100.00	4197804E
	20,690,000	3/1/2019	5.000	3/1/2016	100.00	4197804F
	340,000	3/1/2020	4.125	3/1/2016	100.00	4197804G
	21,630,000	3/1/2020	5.000	3/1/2016	100.00	4197804H
	22,960,000	3/1/2021	5.000	3/1/2016	100.00	4197804K
	24,080,000	3/1/2022	5.000	3/1/2016	100.00	4197804M
	25,425,000	3/1/2023	5.000	3/1/2016	100.00	4197804N
	50,000	3/1/2024	4.250	3/1/2016	100.00	4197804P
Hawaii GO Series 2006DI	26,650,000	3/1/2024	5.000	3/1/2016	100.00	4197804Q
	21,095,000	3/1/2025	5.000	3/1/2016	100.00	4197804R
	183,090,000					
Hawaii GO Series 2007DJ	18,970,000	4/1/2018	5.000	4/1/2017	100.00	4197805Y
	2,305,000	4/1/2019	5.000	4/1/2017	100.00	4197805Z
	12,280,000	4/1/2023	5.000	4/1/2017	100.00	4197806D
	21,420,000	4/1/2024	5.000	4/1/2017	100.00	4197806E
	54,975,000					
Hawaii GO Series 2008DK	6,100,000	5/1/2018	5.000	---	---	419787AK
Hawaii GO Series 2009DQ	24,710,000	6/1/2018	5.000	---	---	419787EX

STATE OF HAWAII • General Obligation Bonds of 2012, Series EE, General Obligation Refunding Bonds of 2012, Series EF and Taxable General Obligation Bonds of 2012, Series EG

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